THE NAVIGATOR

APRIL 2012
ISSUE 8

THE MONTHLY REPORT FROM WESTSHORE SHIPBROKERS AS

WESTSHORE
SHIPBROKERS AS

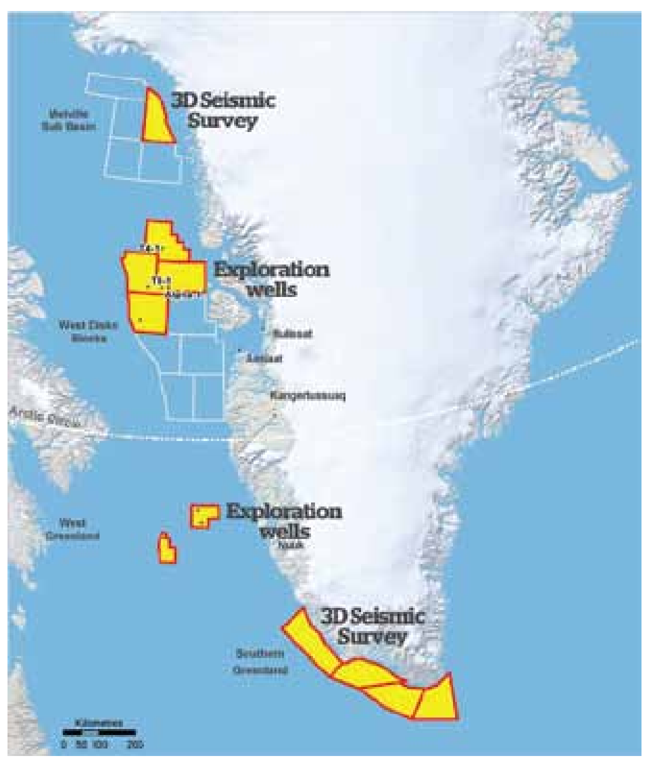
INSIDE THIS ISSUE:

Drilling in Greenland?

Last period's drilling campaign by Cairn in Greenland absorbed some of the available tonnage from the North Sea, there has therefore been a great deal of interest in whether their drilling program would be as extensive as in 2011. Cairn holds 11 out of the 20 blocks currently licensed, therefore its actions are pivotal to the increase in demand. During the course of 2010 and 2011 Cairn drilled 8 exploration wells equating to 60% of all wells drilled in Greenland so far. Unfortunately their extensive campaign was aborted after accumulating drilling costs of up to USD 942 million without any successful commercial quantities discovered. Cairn has however stated that the first phase of its program has shown that the geological ingredients necessary for success are present. The company has however cut back on its CAPEX for 2012 with an expected budget of USD 60 million.

Cairn has decided to diversify its approach, with the company recently farming out 30.625% of its interest in their Pitu block in Baffin Bay to Statoil due to its extensive Arctic operating and development experience. Cairn will operate the exploration and appraisal phase, while Statoil will operate the development phase. In 2011 the core sampling had shown potential with results from the seismic due in the second quarter of this year. They are also contributing to a Shell consortium to drill some core samples in the north part of Baffin Bay in order to gain strategic information on the area. Otherwise the Disko, West and South areas are being evaluated, but Cairn is looking for one or more partners before it will commit to any additional drilling. The seismic results are not due until the third quarter therefore an impending partnership will not be negotiated until late in the year.

Cairn has recently disposed of a 40% stake in Cairn India to Vedanta Resources for approximately USD 4.7 billion, with 1.2 billion of these dollars used to refuel their piggy bank and the remainder returned to shareholders. It now holds a 22% interest in Cairn India valued at USD 2.5 billion. It is expected that Cairn will spend the next year to regroup and return with a drilling campaign earliest next year, with a likely start in 2014.



The map shows the 11 licenses currently majority owned by Cairn, in addition to the 9 remaining licenses owned by Oil Companies.

03 NEWBUILDING NEWS

NEWBUILD DELIVERIES

NEXT SIX MONTHS

April 2012
Olympic Energy (PSV 06 LNG)
Brage Trader (STX PSV 09 CD)

May 2012
Vestland Mistral (VS 485)
Island Crusader (UT 776 CDG)

June 2012
Far Scotsman (STX PSV 08 CD)
Troms Sirius (STX PSV 09 LCD)
Olympic Orion (MT 6015)
Ugland VS 485 TBN

July 2012
FD Incomparable (UT 755L)
Viking Fighter (STX PSV 08CD)
Torsborg (Havyard 832)
Simek UT755 TBN

August 2012
Blue Warrior (PX121)

September 2012
Island Contender (UT 776)
Østensjø TBN ST-920
Viking Princess (VS 489 LNG)
Far Skimmer (STX PSV 08 CD)

NEWBUILD ANNOUNCEMENTS THIS MONTH

-Rolls-Royce has received an order from Korean shipbuilder Hyundai Mipo Dockyard Co Ltd to design and equip four deepwater UT 776 CD PSVs.

-The Viking Prince 6,500 dwt PSV is currently undergoing sea trials, ahead of being delivered to owner Eidesvik by the Kleven Verft shipyard. The VS489LNG-design vessel is scheduled for delivery on March 31, 2012. Viking Prince will replace Viking Athene in an existing contract between Eidesvik and Lundin from the time of delivery.

-Eidesvik has sold a 50% slice of an IMR vessel valued at USD 800 million through an option installed when it secured a long term charter to Subsea 7.

-DOF Subsea has signed an agreement to sell Skandi Bergen a vessel currently under construction at STX OSV to the commonwealth of Australia. The vessel was sold for slightly below USD 130 million. The owner followed the sale with signing a newbuilding contract with STX OSV for a new vessel of OSCV 11 design.

-Island offshore has signed up another newbuilding contract at STX OSV. The vessel will be delivered in early 2014 and will cost NOK 500 million. The hull will be put together at the STX OSV Braila yard in Romania.

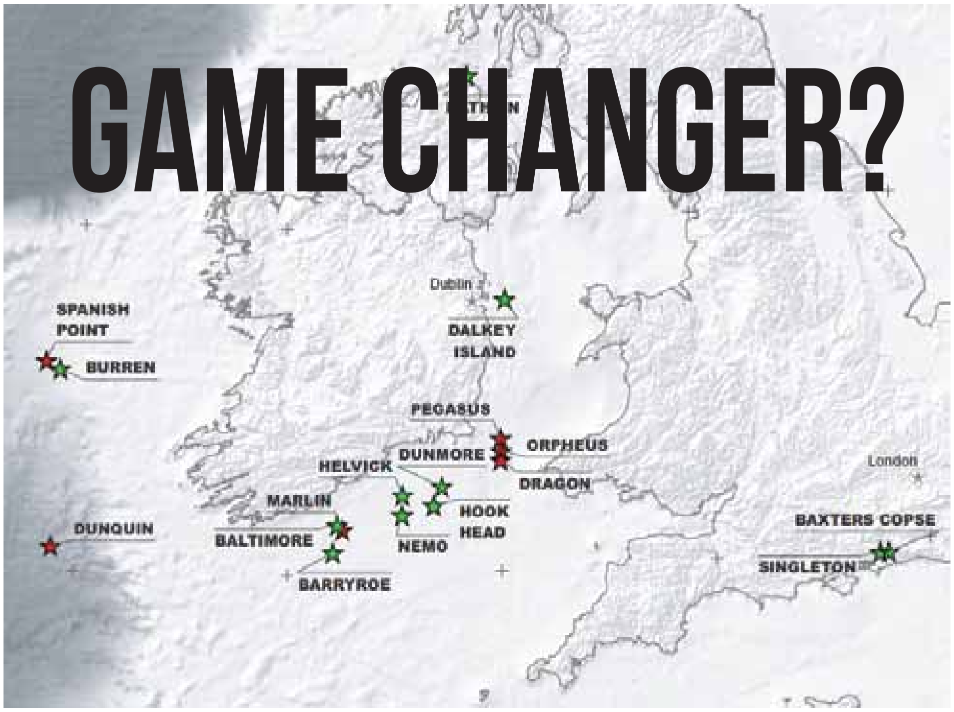
-Geoships has taken delivery of the MPSV Loch Roag on a 5 year bareboat charter basis. The Loch Roag was built in the Indonesian Shipyard Batamec with a MT 6009L MKII design.

-Mokul Nordic's 3100 dwt PSV Loch Erisort has been sold to an undisclosed buyer.

-The Sjoborg has been delivered by Havyard to Supply Service and gone on contract to Statoil

04 DRILLING & PRODUCTION

GAME CHANGER?



Ireland's import dependency in 2008 was 89%, with a 100% import dependence on oil for the transport sector. Therefore the recent successful flow tests by Providence Resources an Irish explorer on its Barryroe field could have a massive impact on Ireland. There has generally been little interest in the exploration off the Irish coastal regions for Oil and Gas, with two applications received in the 2009 licensing round. In 2011 a total of 12 companies were awarded licensing options, showing a definite increase in interest, however the lack of interest from Oil Majors was notable. This despite the favorable fiscal policy towards explorers and producers, which taxes 25% on company profits reaching a maximum 40% depending on the size of the commercial discovery. There is however a need to ensure that no higher taxes are grandfathered as it is expected that once the risk is reduced in Ireland the taxes will go up. In addition the entrants were offered two year licensing options instead of the regular frontier licenses which require a large amount of upfront investment. It is however expected that some of the majors will join the license winners at a later stage.

The Barryroe find in the Celtic Sea has recently confirmed flow rates of 4,000 barrels of oil equivalent and 2.9 million standard cubic feet of gas per day. They now expect the field could yield more than its earlier estimates of 20,000 barrels per day and reserves of 60 million barrels of oil. The Providence drilling campaign will continue onwards to Dalkey Island, an offshore prospect in the Irish Sea, in the latter half of 2012. During the last six months Providence has utilized the semi-submersible GSF Arctic, she has now been demobilized and is being moved back to the UK. The total requirements for this project have been two rig moves and 3 supply runs, with the Northern Wave having been chartered in on term. The success of this project should lead to further need of tonnage going forward.

Providence is a vital factor in the expansion of the Irish oil industry, and they have managed to tempt larger oil companies to join in on the deeper and more difficult regions. Providence recently farmed out its Irish deepwater license in the Atlantic Margin to Repsol as they felt they have more solid deepwater experience. The Irish government estimates a potential reserve of 10 billion barrels of oil in the Atlantic Margin region, despite this estimate the interest for deepwater areas has been limited with only 14 wells drilled since 2000. There are a number of reasons why this has been, the harsh weather conditions in the Atlantic and difficulties encountered with Corrib gas field (discovered by Shell more than 15 years ago in conjunction with Statoil and Vermillion Energy, it has faced extensive delays and almost trebled the initial cost estimate). Previously Exxon Mobil, Eni and Repsol bought into the Dunquin exploration block in the Porcupine basin. Slowly but surely interest is increasing, with the environment set for further investment.

The find in Barryroe is the first successful drilling activity for Providence in Ireland, and confirms there are reserves off her coast. It is hoped that this could ignite an Irish oil boom. The environment is favorable and the price of oil is solid. All that is needed is a vested interest from the oil majors.

ON THE MOVE IN APRIL..

- **West Alpha – BP N**
- **Songa Dee – Statoil**
- **Borgland Dolpin – MLS**
- **Ocean Princess – Enquest**
- **WillHunter – SPD**

JOHAN SVERDRUP FIELD

The partners have signed a pre-unit agreement for the field with Statoil chosen as the working operator during the development phase. The effort put forth during this period will form the basis for developing and establishing the best field solution.

05 DRILLING & PRODUCTION

UPCOMING AND ONGOING

-Pacific Drilling has confirmed its option on the seventh drillship given the strong market, with delivery expected in May 2014 from Samsung Heavy Industries in South Korea. The new drillship will

cost around USD 600 million and will have a water depth of 12,000 feet and accommodation for 200 personnel. Pacific has so far had four ultra-deepwater units delivered with another two units to be delivered in April and September 2013.

-Pacific Drilling is not alone in ordering UDW drillships with Seadrill recently ordering two vessels at Samsung Heavy Industries in South Korea.

-Odfjell has failed with an attempt at a stock issuance and will seek alternative methods to try and finance the purchase of new drilling capacity.

-North Atlantic Drilling raised USD 300 million to be used to finance a semi-submersible. Their parent Seadrill maintained its 77% stake by purchasing a USD 150 million share.

-Ocean Rig's options to build three drillships at Samsung

have been extended. Meanwhile the semi-submersible Eirik Raude has been picked up for a two-well program off West Africa worth approximately USD 67.5 million over 84 days.

-Towards the end of the month Statoil announced that they along with their Oseberg partners have made a small oil discovery on the PL053 production license in the North Sea. The well was drilled by the COSL Pioneer rig and the estimated volume is 12 to 18 million barrels of recoverable oil equivalent.

-The semi-submersible GSF Arctic III won a three month extension drilling contract for Nexen in the UK sector of the North Sea at a dayrate of USD 315,000.

-BP is looking to sell their North Sea assets worth close to USD 3.2 billion. The strategy is to sell of many of its stakes in reservoirs where it holds a minority position. They recently sold its southern gas assets in the UK North Sea to Perenco UK Ltd for USD 400 million. Perenco will make a first payment of USD 100 million in cash, with the remaining USD 300 million paid on completion.

TOTAL SITUATION

Total's North Sea Elgin platform located in the Scottish North Sea 248 kilometers off Aberdeen is currently leaking at a rate of approximately 2 kg per second, with many stating that this is a crisis we have not seen the likes of before. Emergency procedures have been underway since the leak was noticed on the 25th of March with all non-essential personnel having been evacuated from the platform. The following day they made the decision to evacuate the remaining staff. At the time of the initial problem the jack-up Rowan Viking was alongside the facility and has also been evacuated.

Workers from nearby installations reported seeing gas clouds, with Shell having decided to pull workers from the neighboring Shearwater platform and the nearby Noble Hans Deul drilling rig. Both Elgin-Franklin and Shearwater are known as high pressure/high temperature fields, and are therefore know to yield highly volatile product. These fields account for more than 10% of the UK gas market, with the Elgin/Franklin field capacity able to produce up to 280,000 barrels of oil equivalent per day (175,000 barrels per day natural gas condensate and 15.5 million cubic meters of gas). The impact on the energy market could be tremendous given the uncertainties surrounding the situation.

The French oil major has said that it is continuing its investigations to determine the cause of the ongoing leak and will monitor the situation closely. The situation has temporarily increased the demand for offshore vessels with two AHTS initially being fixed, since then another two AHTS vessels and a well intervention vessel has been fixed. Prior to fixing the vessels Total inquired about vessels with FiFi specifications, given that the rig is still flaring. The company is mobilizing the near-by jack-up Rowan Gorilla V for the possibility of drilling a relief well. The jack up has been drilling development wells for Total in the West Franklin development. Drilling a relief well could potentially take up to 6 months to complete, however there is hope that the gas release will diminish in order to get back on the platform to repair the leak.

06 IN AND OUT

Vessel	Design	Manager	ENTRY	From
Olympic Energy	STX PSV09LNG	Olympic Shipping	Start – April	Newbuild – Norway
Viking Prince	VS489	Eidesvik	Start – April	Newbuild - Norway
Brage Trader	STX PSV 09	Møkster	End – April	Newbuild – India
Loch Roag	PSV	Otto Marine	End – April	Newbuild – Indonesia

Vessel	Design	Manager	ENTRY	From
Northern Wave	PSV	Trico	End – March	Providence
SBS Torrent	PSV	SBS Marine	End – March	Venture
Skandi Emerald	AHTS	In House	End – March	West Africa
VOS Producer	PSV	Vroon Offshore	Start – April	Helix
Viking Athene	PSV	Eidesvik	Start – April	Lundin
Toisa Coral	PSV	Sealion	Start – April	En Route
Toisa Independent	PSV	Sealion	Start – April	En Route
Far Server	PSV	Farstad	Start – April	ConocoPhillips
Rem Supplier	PSV	Rem Offshore	Start – April	SPD
Troms Castor	PSV	Troms Offshore	Mid – April	MOUK
Rem Provider	PSV	Rem Offshore	Mid – April	ADTI
Bourbon Sapphire	PSV	Bourbon	Mid – April	DONG
FD Honorable	PSV	Gulf Offshore	Mid – April	BG UK
Ocean Mainport	PSV	Sartor	Mid – April	Lay up
Normand Baltic	PSV	Solstad	Mid – April	BP Norge
Island Vanguard	AHTS	Island Offshore	End – April	Statoil
Troms Artemis	PSV	Troms Offshore	End – April	Statoil
Normand Neptun	AHTS	Solstad	End – April	EDT – Egypt
Ocean Scout	PSV	Sartor	Start – May	Lay up
Troms Capella	PSV	Troms Offshore	Start – May	Nexen
SBS Nimbus	PSV	SBS Marine	Mid - May	Transocean
SBS Stratus	PSV	SBS Marine	Mid – May	Transocean

Vessel	Design	Manager	EXIT	To
Rem Star	PSV	Rem Offshore	Start - April	Petersons
Edda Freya	PSV	Østensjø	Start – April	Allseas
Ocean Pride	PSV	Sartor	Start – April	Allseas
Bourbon Front	PSV	Bourbon	Start – April	Allseas
Edda Frigg	PSV	Østensjø	Start – April	Allseas
Brage Supplier	PSV	Møkster	Start – April	Allseas
Normand Pioneer	AHTS	Solstad	Start – April	Technip
Toisa Invincible	PSV	Sealion	Start – April	Allseas
Highland Star	PSV	Gulf Offshore	Start – April	Apache
VOS Prominence	PSV	Vroon	Start – April	Senergy
Siem Danis	PSV	SOLD	Start – April	West Africa
FD Reliable	PSV	Gulf Offshore	Start – April	SPD
Durga Devi	PSV	Chellsea	Mid - April	RWE Dea
Dina Supplier	PSV	Myklebusthaug	End – April	MOUK
Vidar Viking	AHTS	Estonian MA	Start – May	Sakhalin EIC
Viking TBN	AHTS	NA	Start – May	Sakhalin EIC
KL Brofjord	PSV	K Line	Mid – May	Statoil
Maersk Launcher	AHTS	MSS	Mid – May	Petrobras – Brazil
Siem Ruby	AHTS	Siem	Start – June	Petrobras – Brazil

07 MARKET FORECAST

WHAT LIES AHEAD

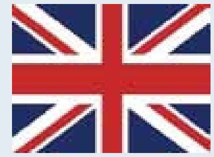
The market over the last month has been tight, both for AHTS and PSVs. In the final word of this report I have provided a brief overview of what has happened in the market and how the rates have been climbing at a fairly steep rate relative to previous years during these early months. What is generally seen going forward into the summer months is the market steadily increasing from March and onwards and the incline in rates increases at a faster pace until approximately May/June. So far this month the rates have reached levels higher than previous years in May, so the question is whether we can expect even higher rates going forward? As with all predictions it is difficult to adjust for outliers, and the recent outlier in this market has become quite evident in the Elgin gas leak. Given the already tight market their sudden need for further vessels has spiked rates up to GBP 72,500 for the last two AHTS they fixed, should the leak continue or something worse occur we will definitely see further requirements for the area and higher rates on the AHTS side. When the market is this tight we can expect slight events to have fairly large effects on rates, while I am not calling the Elgin situation a small event, its event slightest situation in this market can result in substantial highs.

In addition to the occasional spike, we expect a continuation of the strong rates going into the summer months given that the general balance of vessels in the North Sea is expected to remain the same or even decrease slightly. On the AHTS side there are very few newbuildings expected to hit the market in 2012, and even fewer are expected to reach the North Sea. There are also five vessels expected to leave or have left already for South America, with another two off to the Caspian Sea. There are some vessels expected back from foreign term charters, however a large number are expected to stay in their current regions to seek other work or stay on their current charters. There will not be a drilling campaign in Greenland until earliest 2013, and the effects of Ireland finding oil will not be felt for some time yet.

The hugely anticipated Subsea boom that tends to arrive during these calmer summer months is already starting to impact the spot market in the North Sea. Olympic Zeus and Island Valiant have predictably picked up subsea work keeping them busy for several weeks and Normand Pioneer will soon return to Technip for her annual commitment. There remain very few subsea vessels available for light construction work in the North Sea and it is reasonable to assume more of the larger AHTS will follow suit. Looking at the supply of vessels and assuming a continued firm demand from oil companies, including an increase of term contracts during the summer months, we expect the market for larger AHTS to continue to rise over the course of the next months.

The PSV market is however another altogether, there is a substantial number of PSVs still to hit the market over the next few months. Rates have already seen a strong hike from February and short term we expect them to remain strong, the market has proved remarkably flexible in absorbing the new tonnage but a question mark lingers above the high number of new vessels still left to deliver. The demand for cargo runs, supply duties and longer term charters has surpassed the expectations of many, but crucially this needs to continue in an upward trend for the market to stay in the situation it is now.

The Turning Point?



The Oil and Gas industry in Britain was caught off guard last year when a rise in the supplementary tax charge at the corporate level was increased from 20 to 32%. A wave of discontent ran through the industry as many felt that the industry was already struggling to maintain investment on a year on year basis. The increased rate would result in a North Sea marginal tax rate on UK oil and gas production of between 62% and 81%. This increase would cause issues in itself, however the implications for financial stability through uncertainty within the fiscal regime also need to be assessed. This upward adjustment to the industry's tax rates was the third with in nine years, while the other UK sectors actually saw a reduction in corporate tax rate. The common gripes to this change are that people will perceive the UK as a riskier place to do business.

However this year's budget adjustments have shown that the government is willing to work with the industry, and shown their willingness to ensure a maximum recovery of hydrocarbons from the UK sector of the North Sea. Another key issue from last year's budget changes was the restriction on tax allowances for decommissioning costs. The uncertainty surrounding this tax relief and whether it would be upheld in the years to come caused major concerns, currently the tax relief entitles companies to claim back 50 to 70% of the costs of decommissioning. The need for a guarantee on these long term tax benefits was evident, as commercial opportunities could not with certainty, factor into account these benefits. During his budget speech the Chancellor George Osborne assured that he would end the uncertainty by entering into contracts guaranteeing tax relief on the 30 billion pound bill for decommissioning old infrastructure. This change is expected to result in 1.7 billion barrels of additional oil and gas being recovered. In addition to this promise the government has stated its intent to provide tax relief totaling 3 billion pounds for new field allowances in the area west of the Shetlands and doubling tax breaks for developing smaller fields. The government has also stated the intent to provide an allowance for new investment in existing fields and infrastructure, in addition to a 1% cut in the rate of corporation tax from April 2013.

These changes have gone a long way in placating the industry discontent with last year's tax hike. The immediate effects should be a less risky investment for the industry with better clarity and hopefully a more stable collaboration between the industry and government. Oil and Gas UK predicts that an extra 50 billion pounds could be pumped into the North Sea as a result of the new reforms, with 40 billion pounds as a result of the guarantee and 10 billion pounds extra investment from the new field allowances. The treasury estimates that the reforms could boost their pockets by more than 1 billion pounds over the next five years on projects that would not otherwise have taken place. Chancellor George Osborne was quoted as saying "I also want to ensure we extract the greatest possible amount of oil and gas from our reserves in the North Sea". This latest change in fiscal policy is a step in the right direction of showing his intent in doing just that, some terming it a "turning point".

REPORT WRITTEN BY

Offshore Analyst Jon Inge Buli

09 THE LAST WORD

Westshore Asks:

"What do you think will be the highest fixture for an AHTS during the month of April?"

This months competitors:

Atle Holgersen
Simon Møkster
Answer: GBP 100,000

Carl H. Sørensen
K-Line
Answer: NOK 1,350,000

Inger-Louise Molver
Westshore Shipbrokers
Answer: NOK 1,450,000

March Market Recap:

The average fixture rate for PSVs in 2012 has been moving steeply up in March, following a slight decline from January to February. In 2011 we saw low rates at the start off the year with a strong incline in rates up until May when we reached an average high of GBP 20,000. 2012 has begun similarly with a slight change in rates from January to February only to see an even steeper incline in rates from 2011, the current March average is GBP 19,250. The market has generally been fairly tight on average over the past month, with few vessels available on both the sides of the North Sea. These figures have readjusted themselves to an increased supply only to diminish fairly quickly with many ad hoc requirements hitting the market.

In 2012 we started with an average fixture rate of approximately GBP 15,500, with that dropping slightly to GBP 14,250 per day in February. The market had a number of vessels available in February, mainly on the Norwegian side with Aberdeen being sold out. Over the course of March however the requirements have been frequent creating a boost in rates reaching an average of approximately GBP 36,250 more than double the rates of 2011 and treble the rates of 2010. In 2011 we saw a steady incline in rates until the summer when a spike was seen in September and October. Average rates this year have already reached June highs of the previous year given the tight market. Similar to the PSV market the supply has been fairly limited over the course of the month, however short periods of greater supply are quickly eaten up by the demand.

West Fact: Late 2008 the AHTS Maersk Attender achieved a rate of NOK 2.5 million for moving the Bredford Dolphin Rig, 6 months later it fixed at GBP 6000 for the Sedco 714 rig move.

Last month's winner is..

In last month's Navigator we asked the panelists how many offshore vessels would be in port March 15th according to Aberdeen Harbour website. The answer was 29 vessels, which is a fairly low figure attributed to a tight market in the North Sea keeping many vessels out at sea on requirements. John Haugstad just about nailed the answer with his guess of 30 vessels beating Andy Duncan who works a two minute cab ride from the Harbour.

Congratulations to the Møkster boys that are on quite a winning streak!