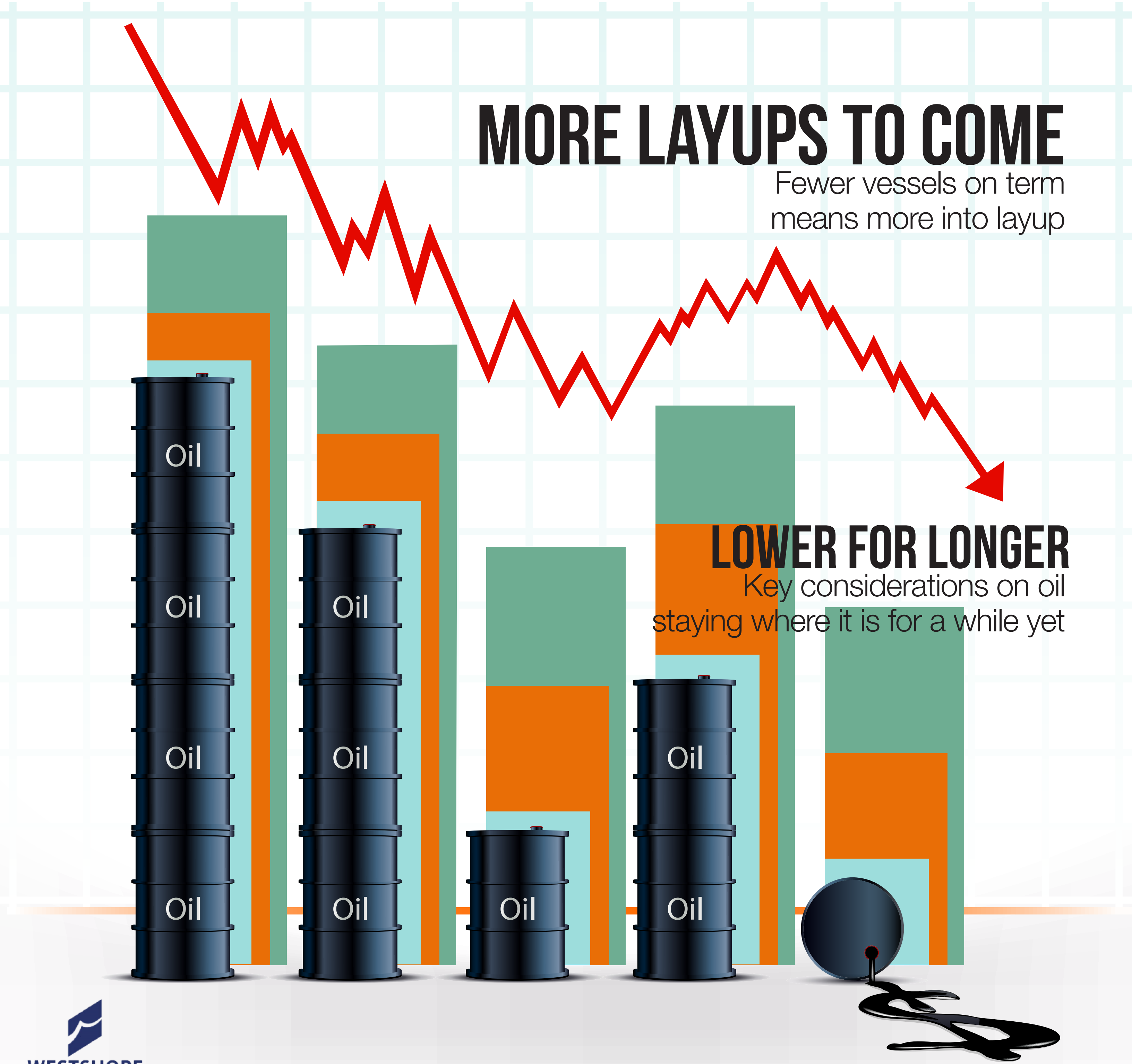
March 2016

NAVIGATOR

THE WESTSHORE NORTH SEA REPORT



MORE LAYUPS TO COME

Fewer vessels on term means more into layup

LOWER FOR LONGER

Key considerations on oil staying where it is for a while yet

WESTSHORE
SHIPBROKERS AS

Contents

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Insta bjorndronen_sailor

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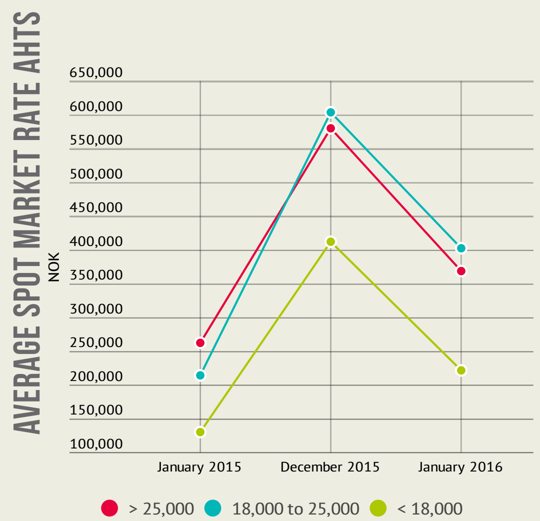


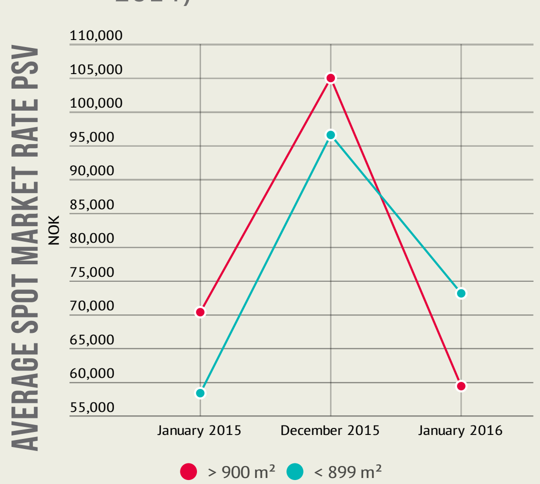
74.7%
Average AHTS utilisation in January

87.3%
Average PSV utilisation in January

	Dec 2014	Jan 2015	Dec 2015	Jan 2016
Number of supply spot fixtures	100	81	84	68
Number of AHTS fixures	49	79	43	39

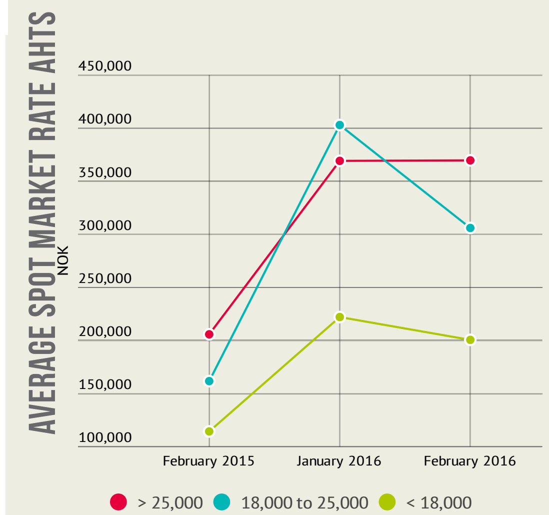
14
Rig moves in January (compared to 36 in January 2015)

15
Rig moves in December (compared to 28 in December 2014)



JANUARY

The winter boom continued to play out quite well throughout January as severe weather offshore constricted periods when offshore operations permitted. But it was this rather than an influx of work that kept rates high or vessels in operation. The number of rig moves in January was just 14, less than half the number in January the previous year. Again this comes as a direct result of the number of rigs now stacked. Though at times rates spiked – there was little reason to celebrate beyond being thankful for the fearsome North Sea weather conditions. It really was in the hands of the gods. Once conditions improved weather-wise, they were bound to worsen for the owners.
For the PSVs activity slowed, something that up to now had kept things ticking over for the PSV side. The drop in number of vessels on term contracts in 2015 had meant that operators fulfilled surplus cargo demand from the spot market. But the industry-wide scale-down and cut-back has meant that too began to be curtailed. Rates failed to impress like they (kind of) did for the AHTS vessels.



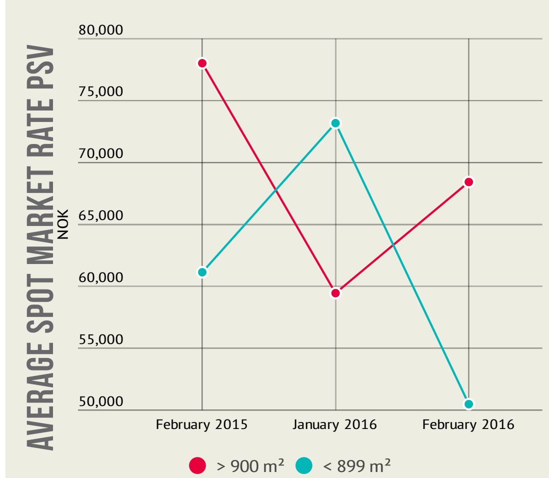
48.6%
Average AHTS utilisation in February

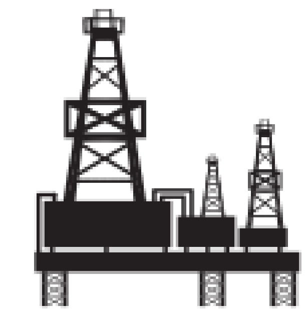
77.9%
Average PSV utilisation in February

	Jan 2015	Feb 2015	Jan 2016	Feb 2016
Number of supply spot fixtures	81	102	68	86
Number of AHTS fixures	79	76	39	54

18
Rig moves in February (compared to 25 in February 2015)

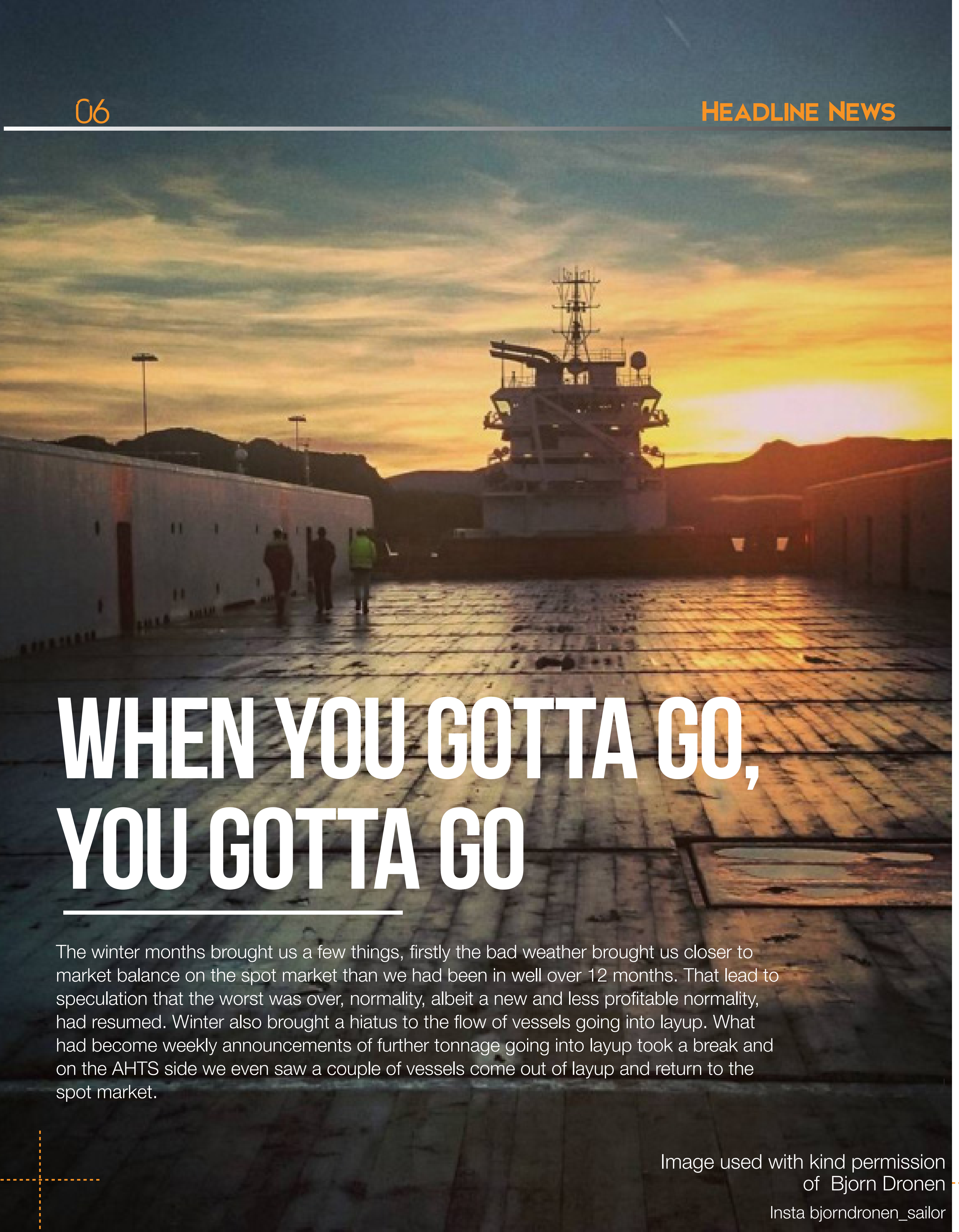
14
Rig moves in January (compared to 36 in January 2015)





FEBRUARY

An uptick in number of rig moves and an uptick in number of fixtures, but as weather improved the rush to the market when weather windows opened didn't emerge. This kept rates under what was achievable the previous month. But a third month of relative stability on the spot market for the AHTS vessels got the wheels turning among owners with vessels in layup, perhaps time to make a return to the market they mused? Westshore says 'not yet!'
For the PSVs a fairly unremarkable month with steady activity. A handful of term requirements came out providing some comfort for owners. Meanwhile several more vessels currently on term charters were expected to come free and become unwanted additions to the spot fleet. More layups loomed. While February had no new entrants to the layup list, there have been five already in March and more are expected.



WHEN YOU GOTTA GO, YOU GOTTA GO

The winter months brought us a few things, firstly the bad weather brought us closer to market balance on the spot market than we had been in well over 12 months. That lead to speculation that the worst was over, normality, albeit a new and less profitable normality, had resumed. Winter also brought a hiatus to the flow of vessels going into layup. What had become weekly announcements of further tonnage going into layup took a break and on the AHTS side we even saw a couple of vessels come out of layup and return to the spot market.

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We think the layups will resume

As much as I'd like to report news of some region where a sudden but very welcome demand for 100 high spec North Sea vessels has suddenly popped up, the reality is altogether different. For the PSVs we anticipate more layups, many of which will come from term contracts in the North Sea expiring. Operators have already scaled back on the number of PSVs they took out on term contracts, around a 20% reduction from 2014 levels. This trend will continue in 2016 although hopefully not to the same extent.

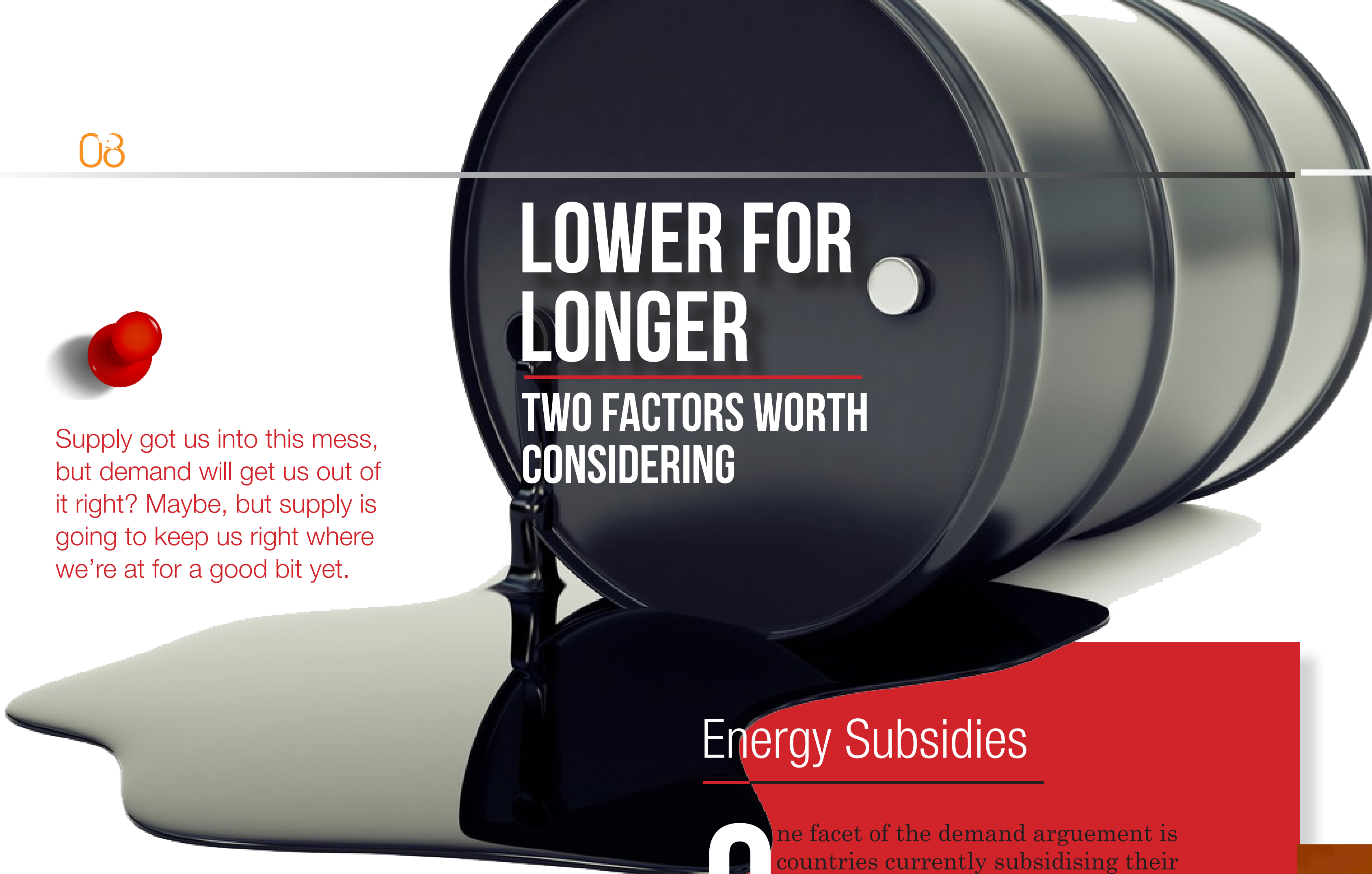
We conducted an extensive study this month looking at each individual operator and surveyed their needs for vessels based on any new production or drilling programmes that are on the cards for this year. We know from official statistics that on both the UK and Norwegian sides' exploration drilling programmes will be scaled back from 2015. In Norway around 32 exploration wells are expected to be drilled in 2016, down from 56 in 2015. Over on the UK sector between seven to 10 wells are expected to be drilled, down from 13 last year. More on the dire prognosis for the UK sector in our Market Forecast section. For the AHTS vessels there will be a further reduction in activity, but already the AHTS spot fleet has faced a huge cut as vessels left the market last year. We believe that although the majority of 2016 will be challenging for owners, unexpected eventualities such as weather, will result in bottlenecks producing higher peaks in rates. In essence, the market will be more volatile than we saw last year.

> **OPERATORS HAVE ALREADY SCALED BACK ON PSVS ON TERM CONTRACTS, AROUND A 20% REDUCTION FROM 2014 LEVELS**

So less drilling this year, what about production?

It's a little known fact that producing a barrel of oil on the UK sector is a good bit higher than it is in Norway. According to Rystad Energy the average price on the UK side was USD 52.50 while in Norway it was USD36.10, it's worth noting however that some pretty hefty measures have been put in place over the past two years to slash operating costs. UK Oil & Gas claim that an average of 40% has been taken out of OPEX for UK operating fields. Despite this, at USD 30 oil price roughly a third of fields on the UK sector are running at a loss. In the short term this means operators will be very reluctant to add any additional production to their portfolios. Aside from already sanctioned fields or those that have been publicly announced as getting the go ahead, operators are at their hardest to keep a lid on additional oil or gas being pumped.

This month Viking Supply announced it would be putting its last two PSVs trading the market into layup. Sealion, Island Offshore and Rem Offshore also laid up supply tonnage this month. The sad fact is there's more to come. Right now instead of talking at light at the end of the tunnel, we're talking about the tunnel getting lengthened.



LOWER FOR LONGER

TWO FACTORS WORTH CONSIDERING

Supply got us into this mess, but demand will get us out of it right? Maybe, but supply is going to keep us right where we're at for a good bit yet.

2¢ Cost per litre for petrol in Venezuela (2015 average price)

40 Number of countries currently subsidizing domestic oil and gas

2.5 X multiple of energy usage compared to non-subsidised nation

Energy Subsidies

One facet of the demand arguement is countries currently subsidising their domestic energy usage. In Venezuela, the world's cheapest place to fill up your car, the price at the pump last year was around two cents a liter. The upshot of this cheap oil and gas means subsidized nations typically use 2.5 times as much oil and gas as non-subsidized nations. Put another way 55% of global oil demand comes from oil exporting countries. But the cost to a nation of such heavy subsidies is massive, Iran spent nearly three times as much on oil subsidies than it did on education in 2013. And with a low oil price, comes a lower oil revenue, which means less budget to spend on oil subsidies, which means talks of subsidy reform are becoming widespread. If all the countries that currently subsidise oil and gas today stopped subsidizing domestic oil and gas, and as a result those countries demand for oil and gas reverted to a non-subsidized country. Global demand would drop by 8mbpd, that would make the current over supply of oil and gas look like nothing. There are currently 40 countries that subsidise domestic energy use, of these 40, seven are under reform (including Saudi Arabia), five have said they will phase it out entirely come time and a further five are publicly considering reforms.

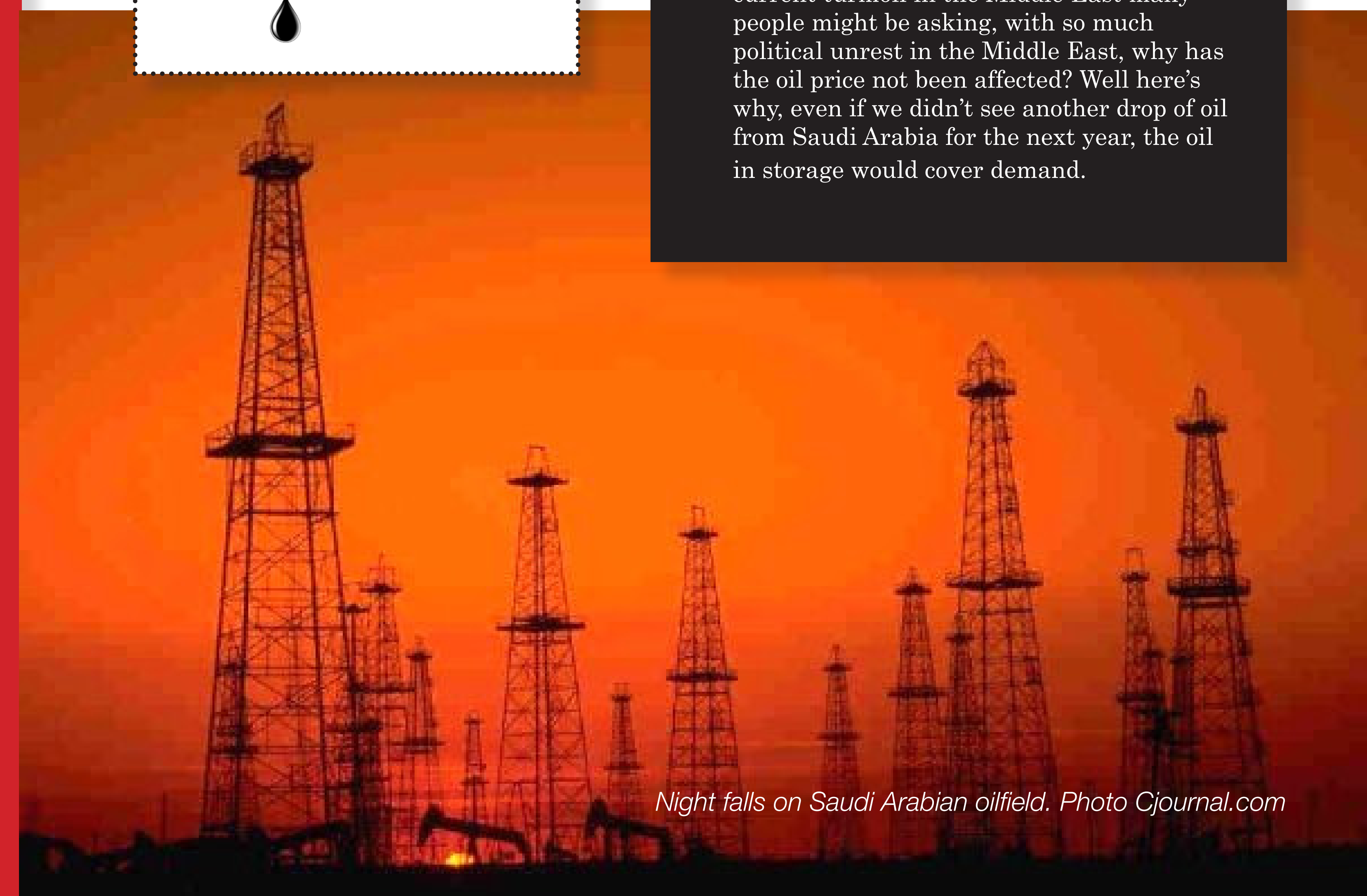
3.03BN BOE Amount of oil estimated to be in storage in OECD countries

66 days of global demand which would be satisfied by current storage

375.75 Days of Saudi Arabian exports covered by current storage in OECD

Oil in Storage

As we have continued to pump more oil and gas than we needed, that excess has gone into storage facilities of one shape or form all over the world. The EIA estimates that there is now 3.03Bn barrels of oil stored in the OECD countries alone. That's far more than has ever been lying in storage before. The current amount of oil in storage equates to 66 days of global energy demand. So, if we stopped producing oil and gas completely, the world over – we would still have enough in storage to satisfy demand for 66 days. What's perhaps more interesting is that the amount in storage equates to well over a year of exports of Saudi oil – 378.75 days to be exact. With current turmoil in the Middle East many people might be asking, with so much political unrest in the Middle East, why has the oil price not been affected? Well here's why, even if we didn't see another drop of oil from Saudi Arabia for the next year, the oil in storage would cover demand.



Night falls on Saudi Arabian oilfield. Photo Cjournal.com

Statoil RIG UPDATE

- This month the contract for COSL Innovator was terminated early and the rig is now warm stacked on the west coast of Norway.

- A total of 531 days were chopped of the contracts for Cat D rigs Songa Equinox and Songa Endurance. Statoil utilized a clause in the contract that allowed them to shorten the length of the contracts by the number of days the units were delayed from delivery from yard. This meant for Equinox the contract is reduced by 347 days and for Endurance by 184.

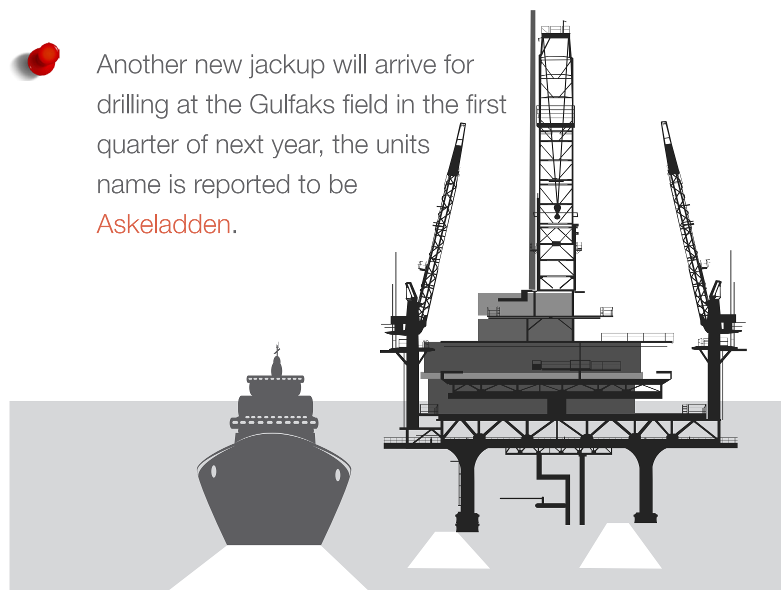
- Songa Encourage is currently off the coast on Norway, drilling operations expected to start in April. The fourth and final rig Songa Enabler has yet to leave South Korea.

- Songa Dee and Delta end firm periods of current contracts in September and October respectively, both units have a one year option remaining after the firm period expires.

- Jackups Maersk Inspirer and West Epsilon will end current contract sin November and December this year respectively.

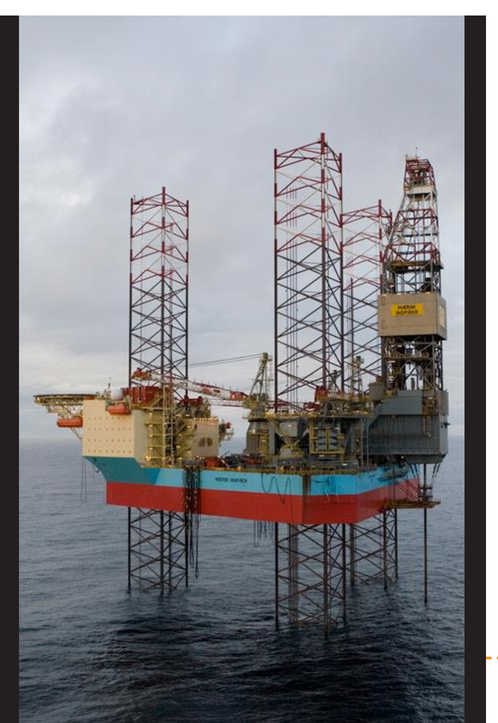
- New jackup Noble Lloyd Noble is set to arrive on the Mariner field by the end of the year on a four year contract.

- Another new jackup will arrive for drilling at the Gulfaks field in the first quarter of next year, the units name is reported to be Askeladden.



SHUT INS, MORE TO COME?

Statoil announced this month that further drilling work on the Volve field would cease and the field would be shut in. Production at Volve started in 2008 and jackup Maersk Inspirer was designed and built specifically for the production drilling at Volve. However as reserves depleted the decision has been taken that any additional drilling and enhanced production from the field will not be economically viable. To date the rate of shut ins has been fairly low despite the low oil price. Our understanding is that despite in some cases fields are running at a loss, a fields capital costs which would be incurred whether it was producing or not, are at such a level that maintaining some revenue is preferable to shutting in the field. However as many fields face depletion in the coming few years, at an oil price at current levels enhanced production methods or further drilling will be decidedly unattractive. Though shut ins have not been common thus far, they will become more common soon.



WESTSHORE APP v2.0

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With the great success of our previous App with over 3000 downloads, Westshore Shipbrokers is proud to introduce our new Offshore mobile app for the iPhone, iPad and Android.

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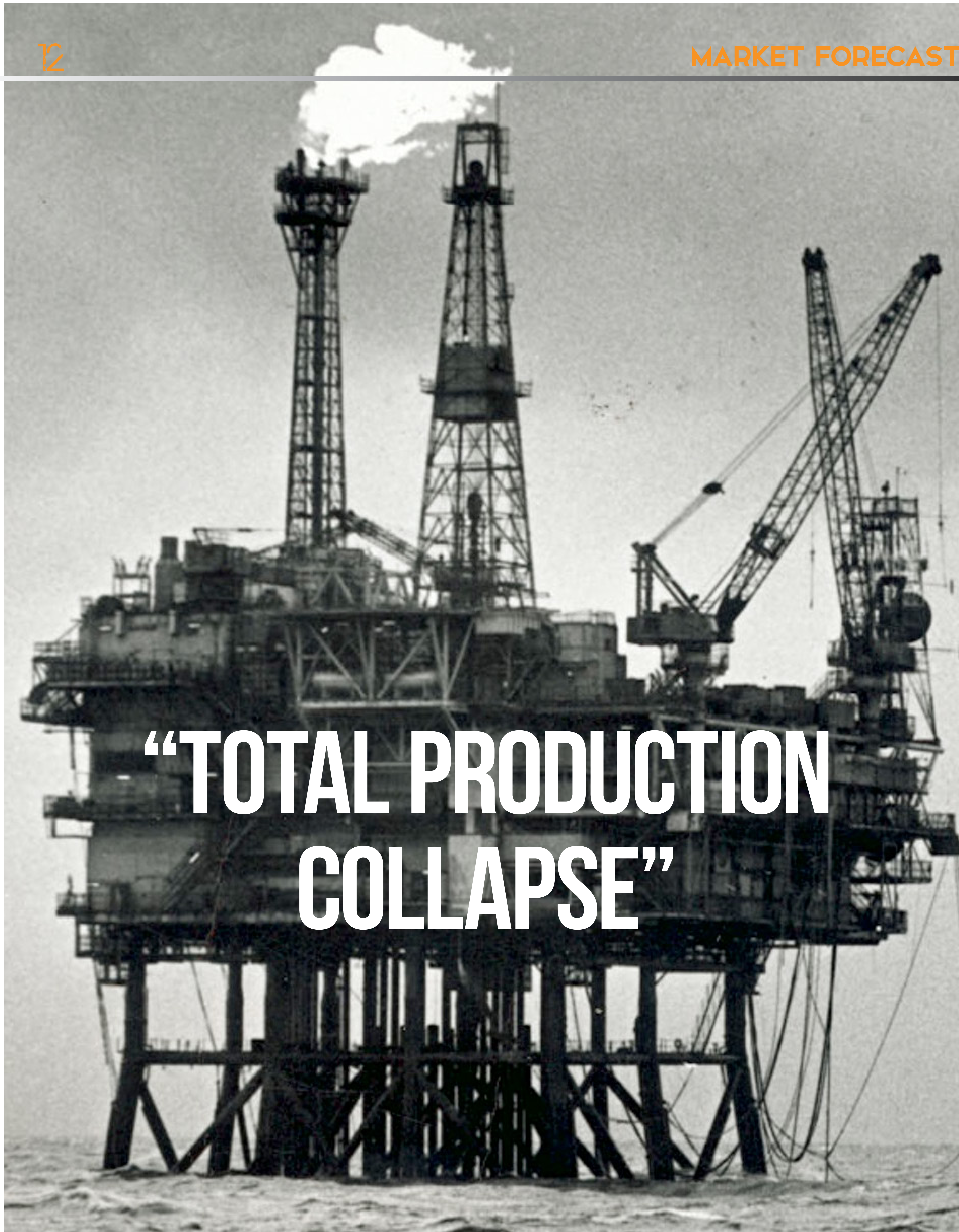


"TOTAL PRODUCTION COLLAPSE"

TOTAL PRODUCTION COLLAPSE. That's how the UK Oil & Gas Authority described the future of the UK sector by the start of the next decade if we continue on this trajectory.

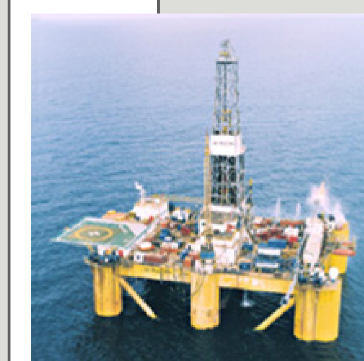
The truth is that the low oil price has merely added insult to injury in what is a super mature basin, a basin that's in decline and is hurtling at ever increasing pace towards demise. This might seem at odds with news that the UK sector actually increased production last year, certainly a positive statistic and one which was most welcome when surrounded by the doom and gloom of sector. The uptick in production came partly as a result of eight new fields coming on stream last year. The rest came from improved efficiencies on already producing fields. But the problem with the UK sector is the lack of new drilling now will leave very little to develop and produce down the line.

EXPLORATION APATHY

Last year just 13 exploration wells were drilled on the UK sector, the forecast for this year is between seven and ten. That's the lowest is has been in 45 years. Part of the problem is the low success rate that's come as a result of the few exploration wells that have been drilled. This leads to a vicious cycle where insufficient drilling activity leads to poor levels of recoverable resources being found. This leaves operators with diminished confidence in actually going out and drilling. The low oil price has done little to put operators in a risk-taking mood, exploration drilling in areas where little has been found in years is not a risk many are willing to take right now. And of course if there's nothing in the pipeline and the fields currently in production are in decline – that leaves you with a fairly obvious conclusion that this once thriving industry in for the chopping block sooner rather than later.

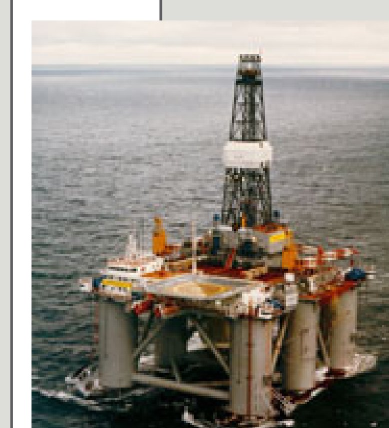
21 Number of UK fields that ceased production in 2015

13 Number of exploration wells drilled in UK sector in 2015



JW MCLEAN - SCRAPPED

7-10 Number of exploration wells expected to be drilled in 2016



GSF ARCTIC III - SCRAPPED

Semisubmersible Sea Quest drilling for BP in 1970s

> THE LACK OF NEW DRILLING NOW WILL LEAVE VERY LITTLE TO DEVELOP AND PRODUCE DOWN THE LINE.

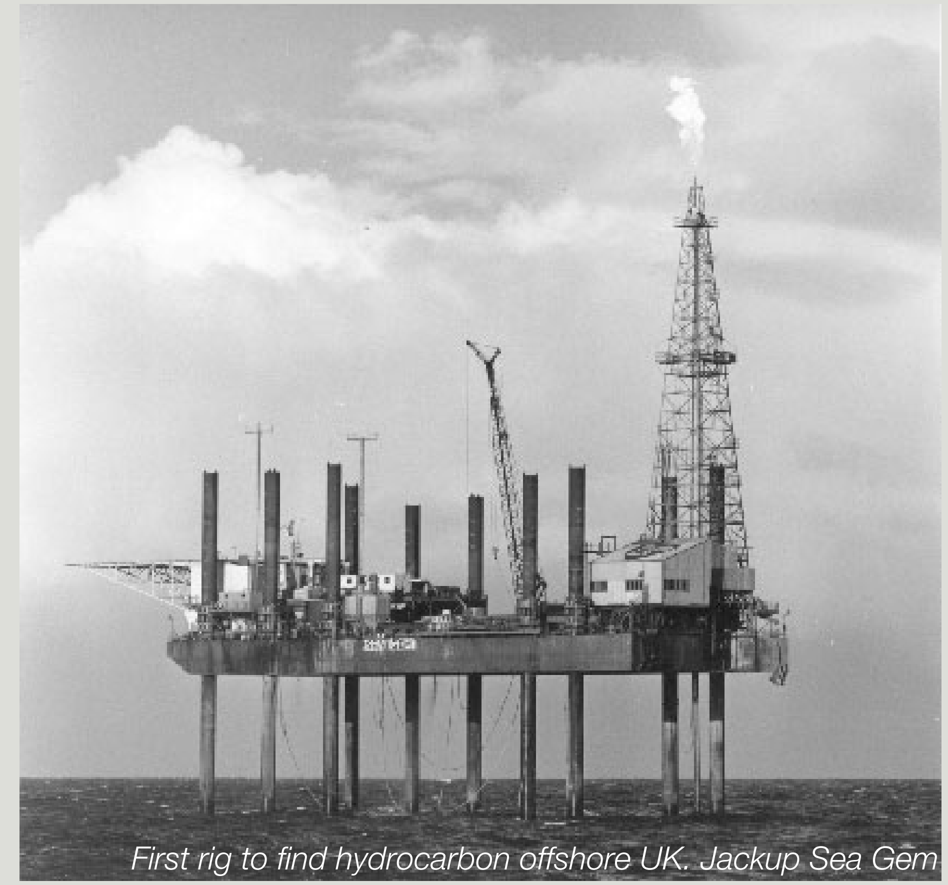
Government pressure to respond to the growing crisis resulted in a couple of things. Firstly tax changes which it is said resulted in Maersk Oil's giant gas field Culzean field getting the go-ahead. Secondly the government sanctioned a GBP 20million spend on seismic surveys in the UK central sector – an area believed to still hold potential. Government estimates put a figure of just over 20bn boe in recoverable resources yet to be exploited. The results of the seismic surveys will be available to interested parties in the hope it generates interest in drilling.

THE RIG DECLINE

Over the whole North Sea, including the Norwegian and Dutch sectors, around 70% of rigs are currently on contract. There have been two rigs scrapped – although rumours abound that that figure will increase once a handful of semisubmersibles end contracts this year. And there are currently 33 rigs stacked. Our figures indicate that a further 35 could come off contract and be stacked by the end of the year, of which 13 of these are semisubmersibles. The UK market takes the lion's share of the bad news. There could be as much as a 40% reduction in rigs on hire by end of 2016 compared to the start of the year if no new work is awarded and options on rigs go undeclared. That's a huge drop.

DECOMMISSIONING BACK ON THE TABLE

The decommissioning discussion has once again grown popular following a few years break as operators decided squeezing out the last few drops was more financially viable that taking the leap towards decommissioning – something that in itself is enormously costly. Last year 21 fields ceased production in the UK sector, by the end of the decade that's forecasted to be over 100 – representing around 1/3 of fields in production at present. It's worth noting that this is largely as a result of depletion and not a lower oil price. Today the UK sector is made up of dozens of small fields and only a handful of large producers. Only three fields in the UK sector produce over 50000bpd and 120 pump around 2500 bpd. Back in the mid-80s the average field on the UK sector was producing over 75000bpd. Decommissioning a field comes with such a huge price tag that so far only a handful of fields have gone down this route. Decommissioning infrastructure before it has reached the end of its life structurally means removing the possibility to tie back anything new that could be found in the area. It means the final nail in the coffin for new projects in the area, so in addition to the cost consideration, you need to be pretty sure you want to close the door on the future of that field and any in its immediate surroundings.



First rig to find hydrocarbon offshore UK. Jackup Sea Gem

First rig to drill offshore UK - Mr Cap

West Sole A, First North Sea platform

VESSEL DEMAND

A 40% reduction in rigs on contract will result in fewer rig moves and fewer fixtures on the spot market – that figure is our worst case scenario but a further drop in activity this year compared to last is assumed regardless. Despite the number of new fields coming on stream in the UK operators cut back on PSVs they took on term contracts. By the end of 2015 there were roughly 20% fewer PSVs on term contracts that there had been at the same point the previous year. We estimate over 50 PSVs will finish term charters in the North Sea this year (including Norwegian and Dutch sectors). Some will be extended, others will have options taken up but many will end up in layup. Our estimate is another 20 by the end 2016

GAME CHANGER PLEASE...?

If only we could just find a Johan Sverdrup, or even a Castberg. This year we have about 10 cracks at the whip to find something big, boost confidence and reverse the decline. The first tranche of the seismic survey sanctioned by the UK Government will be available before the summer. It will be interesting to see what comes as a result of it. Will industry and governmental bodies succeed in reviving this ailing giant or is it a case of accept and move on? In which case given the current oil price, where do you move on to?

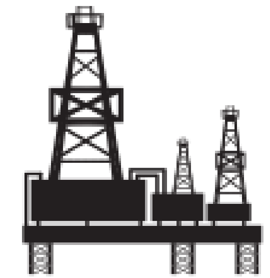
New budget, new hope?

The UK's Chancellor of the Exchequer has announced the latest package of fiscal changes he says will boost the UK's oil and gas sector. But are the latest measures sufficient to bring about any change? Or was it merely political posturing ahead of local elections in May?

THE TAX CUTS AFFECTING THE OIL & GAS SECTOR IN BRIEF

TAX

PETROLEUM REVENUE TAX - ABOLISHED
SUPPLEMENTARY CHARGE - REDUCED TO 10%



A GAME CHANGER OR NOT?

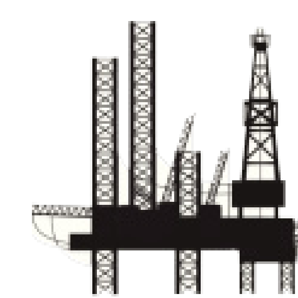
As it stands, one of the greatest challenges to the oil and gas industry in the UK is the lack of exploration, failing to add new resources down the line adds insult to injury to a sea of declining fields. But could governmental involvement make any difference to this at all? The changes put forward this latest budget were for the Petroleum Revenue Tax to be 'effectively abolished' – it was previously at 35% and 50% prior to the budget before last. Secondly the supplementary charge was slashed to 10%, from 20% previously.

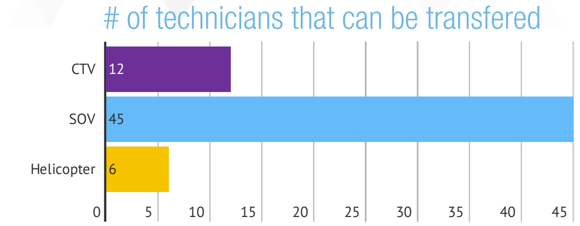
The last budget saw a GBP20m allocation for seismic surveys to be conducted – an effort specifically targeted at boosting interest in exploration, this was then doubled in January this year – perhaps as a result of government ministers discovering quite how little GBP 20m buys you in seismic surveys?

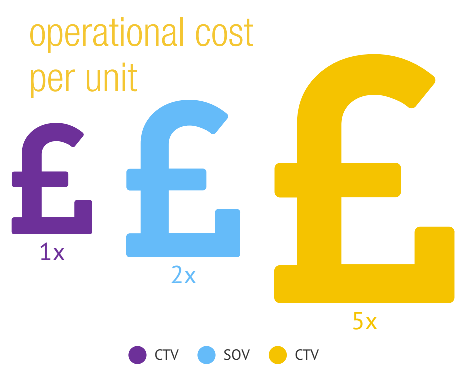
Despite the poor prognosis for the UK sector, it's worth bearing in mind the estimates from UK Oil & Gas say there could be as much as 20 billion boe recoverable resources left in the region. But this budget saw no such targeted measures at boosting the decline in exploration.

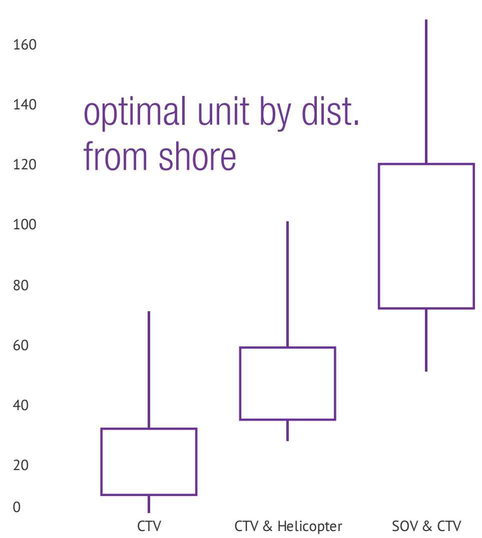
The budget package brought about a mixed response from onlookers. While the cuts to existing taxes were viewed as welcome by most if not all, many felt they did not go far enough. Certainly nowhere near enough to reverse the decline of the sector. Not until the supplementary charge is abolished will North Sea producers be taxed in line with all other business sectors.

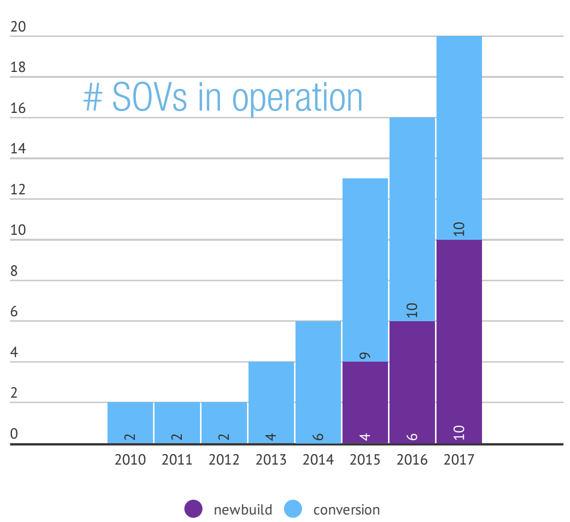
Mr Osborne declared his budget as creating one of the most competitive tax regimes for oil and gas in the world. The cuts amounted to over GBP 1billion in tax breaks he said. This may well be the case, and certainly though the new fiscal regime could set the stage for squeezing another couple of decades out of the UK, without enough new drilling programmes or any significant new finds its game over regardless.











Thinking of going wind?

Here's what will be needed and when

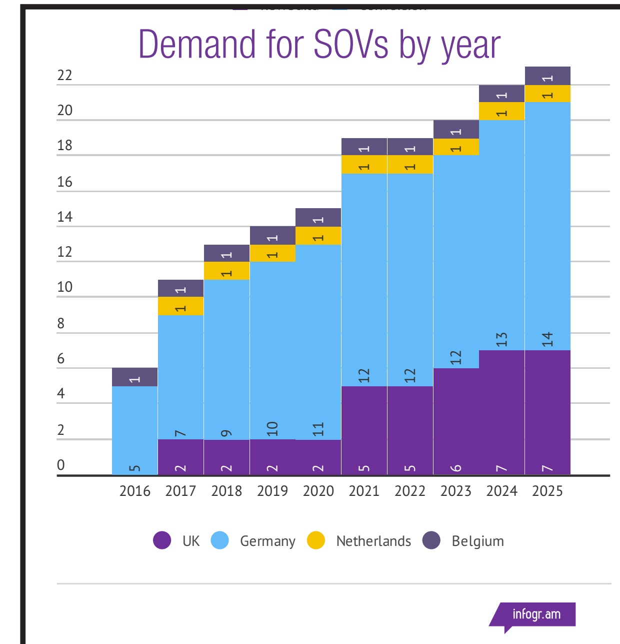
With demand for vessels in the oil and gas sector at worryingly low levels, wind has become of increasing interest. Clean energy and climate awareness are in vogue and the new BP Energy Forecast very much confirms renewable energy as a source of power that will race ahead in the decade to come. Renewables, including biofuels account for 3% of total global energy today, that's expected to rise to 9% by 2035. And in terms of power generation, by 2035 renewables will make up a third of the total power generated in Europe. So the question is how much of this will be offshore wind, and how much of this will translate into actual demand for more vessels.

One key trend that's help the case for vessels owners is new fields pushing boundaries to be located further and further from sure. From a cost perspective, the nearer to shore the less the necessity to use anything other than crew transfer vessels for the operations and maintenance phase of a field. At 30meters to shore and under, CTVs dominate the scene, from there up until around 60-65 meters the tendency is to combine CTVs with helicopter usage. And the sweet spot for SOVs comes in when the distance from shore tips 65meters.

CTVs, SOVs and helicopters each provide their own pros and cons. Not least cost, a typical SOV is estimated to cost double that of a CTV per operational hour and a helicopter by proportion, around five times that of a CTV. Number of personnel and cargo the units can carry vary too and this is taken into account when the support strategy is decided.

The latest report from 4C Offshore has released their expectations for the supply and demand of SOVs over the next few years. And here it is folks, despite the current vessels on order or under construction, there will be a shortfall in number of newbuilds able to service the market. This is partly due to a preference for newbuilds built to the exact specification of a field, or the lack of suitability of current conversions. According to the latest report "Over the next ten years, it is expected that a surplus of 15 long-term SOV contracts (23 in total less the eight suitable vessels) will need to be fulfilled by new builds specifically designed to a project's characteristics, although some possibility does remain that a converted vessel may be selected for a five to fifteen year contract however unlikely."

As it stands this would appear to be one of the few glittering opportunities in today's market. Maybe there's hope for the yards yet..



Esvagt Faraday in operation offshore Germany

FIELDS OF THE FUTURE

Burbo Bank Extension - 258MW
Race Bank - 580 MW
Hornsea (2018 onwards) - 4200MW

4C OFFSHORE LATEST SUPPORT VESSEL RESEARCH REPORT

Over the next ten years, it is expected that a surplus of 15 long-term SOV contracts will need to be fulfilled by new builds specifically designed to a project's characteristics,

HAVILA BORG AND COSL REVAL IN KRISTIANSAND

Alex and Jørgen had the pleasure of visiting Havila Borg during a port call in Kristiansand this month. The vessel was carrying out a cargo run for the COSL Reval and will be heading to Aberdeen on completion. Thanks to the captain Knut Karlsen for welcoming Alex and Jørgen on board.