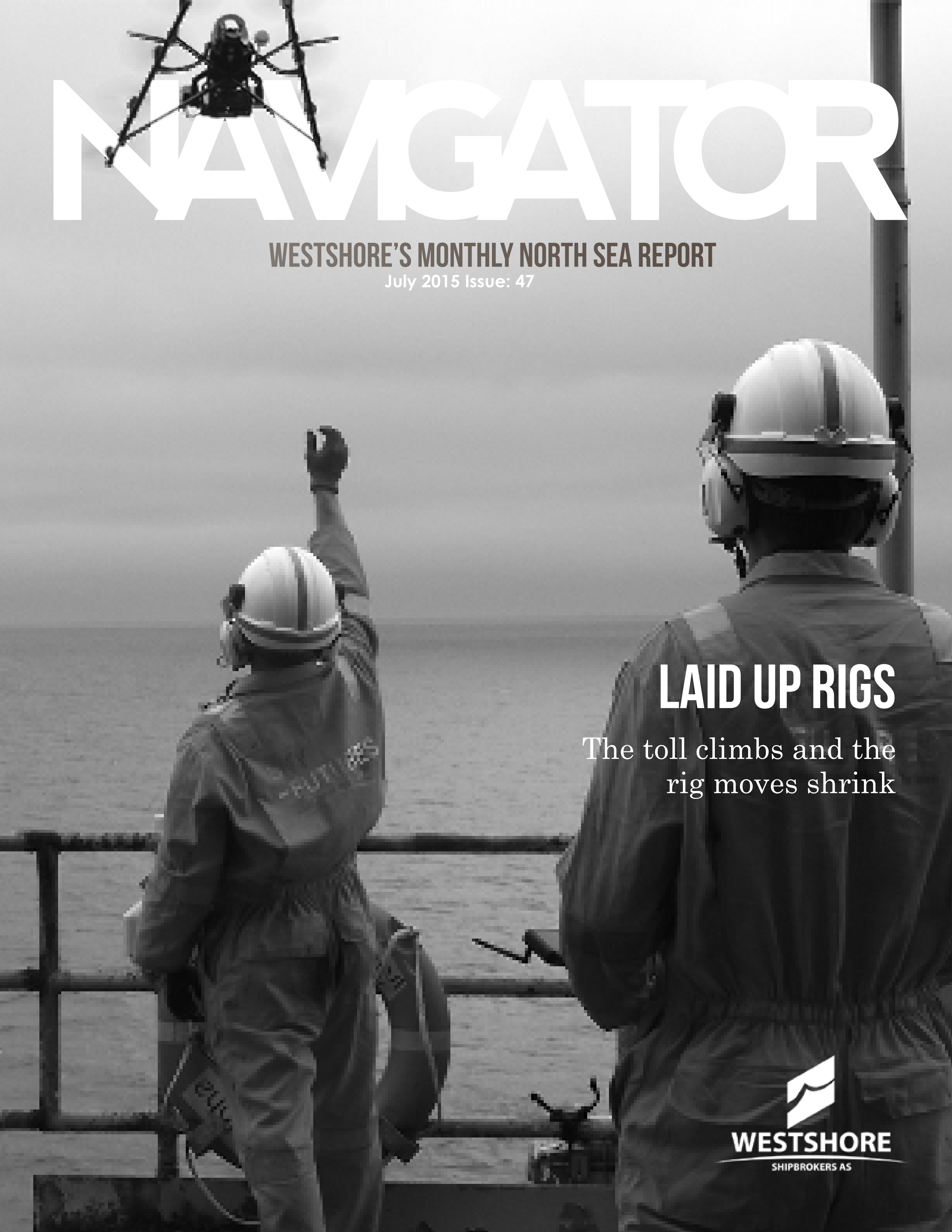
NAVIGATOR

WESTSHORE'S MONTHLY NORTH SEA REPORT

July 2015 Issue: 47



LAID UP RIGS

The toll climbs and the rig moves shrink

WESTSHORE
SHIPBROKERS AS

Contents

"Simple math"

I heard through the grapevine this month that staff facing redundancy in certain oil companies were given info on similar vacant positions in other sectors. Skill sets from accountancy, HR, sales, admin and others are transferable to industries such as the public sector. The problem is of course wages there are up to 30% lower than what's been enjoyed over the past decade as a result of the North Sea's black gold. While these positions are either rejected or begrudgingly applied for, how many have asked themselves "what was I doing that was WORTH 30% more?" if the answer was simply they worked for an industry that had the cash to splash and therefore they wanted their slice of the pie, it is this very attitude that's landed us where we are. Projects are scrapped when the projected break even cost of producing a barrel is higher than the predicted oil price. How much have we over spent on staff costs and materials just because we could? How many projects could have gone ahead if the breakeven price had been lower? How many jobs would never have had to have been lost?

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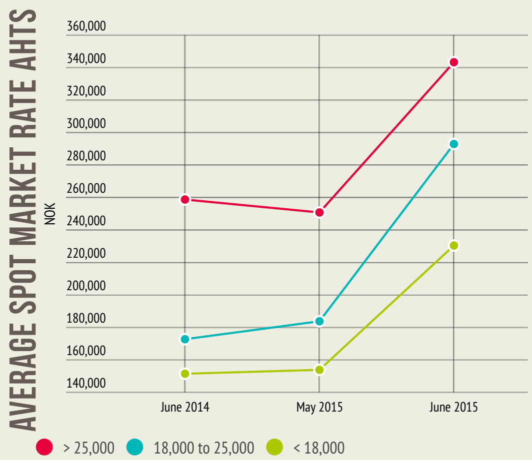
THE MARKET IN JUNE



70.2%

Average AHTS utilisation in June

74.8%

Average PSV utilisation in June

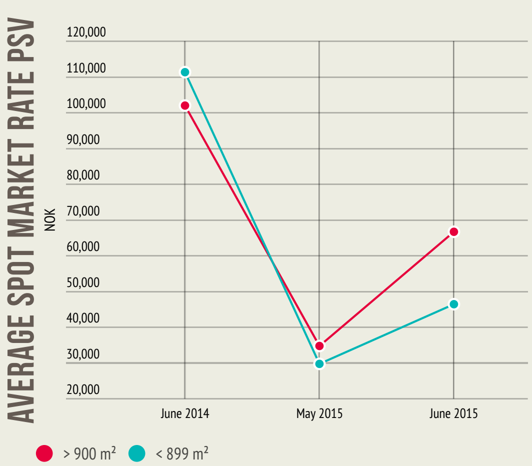
	May 2014	June 2014	May 2015	June 2015
Number of supply spot fixtures	62	64	100	81
Number of AHTS fixures	65	64	84	89

27

Rig moves in June (compared to 23 in June 2014)

25

Rig moves in May (compared to 20 in May 2014)



A definite market improvement can be reported from the North Sea spot market this month. Though still a far cry from buoyant, rates still falling short of break even by some margin. But the summer months are providing some opportunities nevertheless.

For the AHTSs utilization was slightly down on the previous month but fixtures were up as were the number of rig moves, all contributing to a corresponding hike in rates. There were points in the month that the market threatened to become sold out, in Norway at least and this inevitably saw rates to shoot up. Though the spread of rates fixed on the spot market was wide this month, the high points took the average up to around GBP 30K for the larger vessels. Prelay continues to be a trend we see developing, five rigs prelaid this month. Interestingly there were 35 rigs prelaid in total last year and so far in 2015 we already up to 27.

The PSVs saw a marked improvement this month on both sides of the North Sea, though more so in Norway. Utilization went back up to a healthier level of around 70% and rates travelled upwards too, albeit still lay-up threateningly low.

So to sum it up? Still bad, but not as horrendous as it has been.

Those with money to spend are beginning to creep out of the woodwork, some more vocally than others. We take a look at the new players emerging onto the North Sea scene from the ashes of those who spent til they could no more.

NEW FACES IN A CHANGING INDUSTRY

As we reported in Navigator a couple of months ago, large mergers or acquisitions often pop up when the bottom of a crisis is perceived by investors, a large merger like the Shell BG case for instance. The current state of play is several firms have reported financial woes, with job cuts and cutbacks often a prequel to worse news. Asset sales continue to feature heavily, offshore installations or entire fields put up for sale as operators attempt to raise cash, cut overheads or streamline core business. Several have found buyers too. Wintershall announced this month that stakes in Knarr, Yme, Maria, Veslefrikk and Ivar Aasen had been sold to Tellus Petroleum.

Who or what is Tellus Petroleum? According to its website, the Oslo-based subsidiary of Dutch firm was established in 2012 and using PE funds aims to build a portfolio of investments in producing fields. Limited aspirations in becoming operator, this is pure finance making a play for assets while the figures are favorable. Indeed Wintershall will remain operator for the Maria field despite the reduction in ownership by 15%.

- While buyers are out there, the market remains awash with assets to buy. German utility firm Eon has publicly stated its North Sea (as well as Algerian) assets are for sale. That means stakes in Njord, Skarv, Hyme in Norway and Huntington, Babbage, Johnston, Hunter and Rita in the UK. Endeavour International has launched a bid to sell all North Sea assets having announced the same from its US arm which has now filed for bankruptcy. Endeavour's interests extend to Alba, Bacchus, Rochelle, Bittern and Enoch.

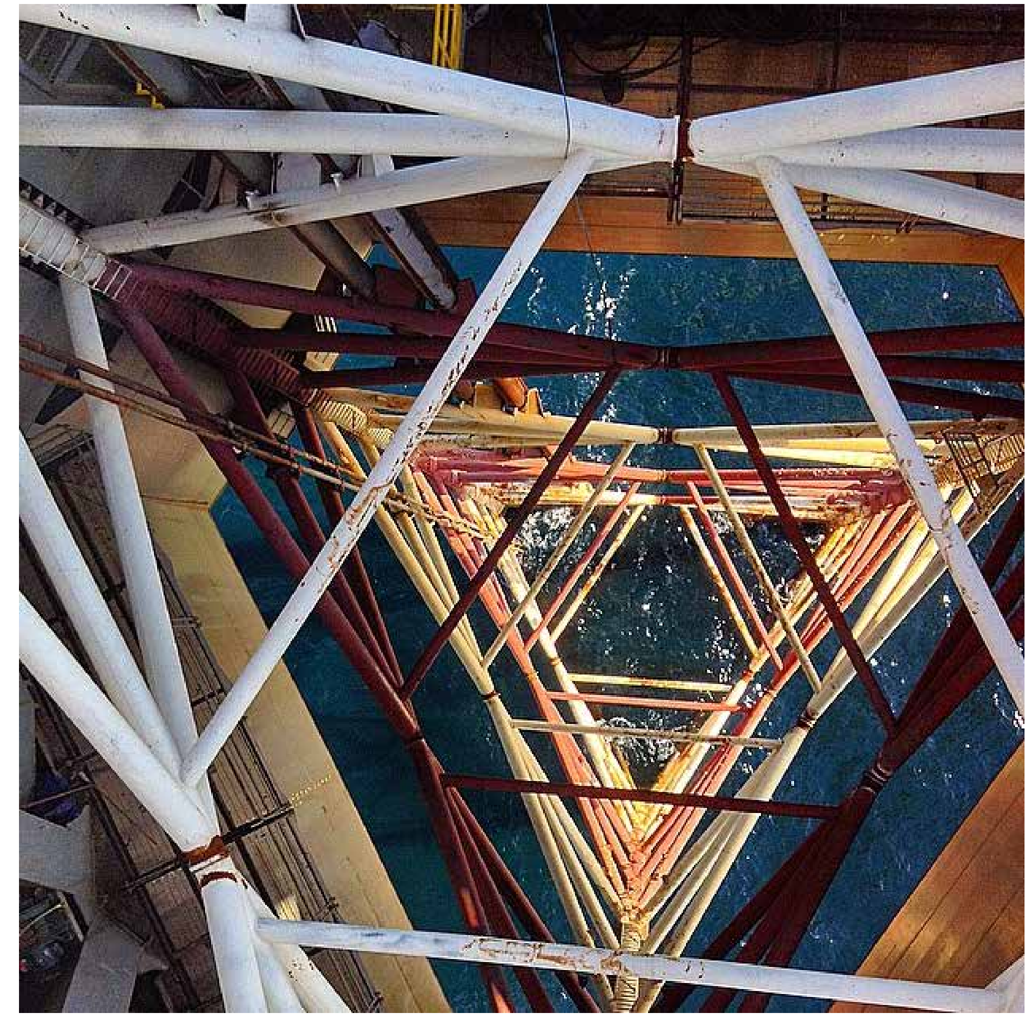
NEW PLAYERS

One firm that's aiming to grow its footprint in the southern sector is Oranje-Nassau Energie (ONE). The Dutch firm this month completed the process of acquiring 50% of the Sean field thus becoming operator from Shell. With ambitions to expand it has opened a UK office and is seeking to grow production to areas within the southern and central sectors. Backed by private shareholders and a £222 million corporate loan facility from a 'consortium of banks', it has the means to do just that.

> ”
>
> BUT THE REALLY BIG FISH IS GE.... A WAR CHEST OF SOME USD 40BN COULD BE EARMARKED FOR OIL AND GAS ACQUISITION.
>
> ”

- More PE money has been amassed in the creation of Neptune Oil and Gas. The new venture, headed up by ex-Centrica boss Sam Laidlaw, has a £3.3bn war chest to 'snap up petroleum assets on the cheap as major producers seek to offload unwanted fields and smaller players struggle to cope with prices below $100 per barrel.' The company is seeking opportunities in the North Sea as well as other areas.

- But the really big fish is GE. The huge international conglomerate was once a purely industrial business and some say has aspirations to be so again. As it sheds its finance arm (GE Capital had become the 7th largest bank in the US, so large it became subject to additional regulatory burdens) a war chest of some USD 40bn could be earmarked for oil and gas acquisition. Given the size of GE, analysts say its big deals that will need to be done to make it worthwhile in anyway. But for context, a sum of USD 40bn is enough to take out National Oilwell Varco, Cameron and FMC Technologies. Whether its equipment manufacture or oil company takeover, expect GE to emerge as a player in the industry once sale of its finance arm is completed.



IMAGES FROM @GRAEMESKELLY INSTAGRAM ACCOUNT

£3.3BN
War chest accumulated by PE funds forming Neptune Oil & Gas. Pegged for investment in North Sea and other oil hubs.

£7 BN +
Value of North Sea assets currently up for sale

52%
Increase in assets listed as for sale in North Sea from a year ago

$40 BN
SIze of pot that could be made available to GE following sale of its finance arm.

THE FIRST TO FOLD

The weak offshore market is starting to take its toll on owners. While layups are still being announced and indeed more can realistically be expected, the question is which owners are suffering beyond breaking point? It is not in the interests of Westshore to pinpoint those companies we foresee as heading uncontrollably to the wall, but what sort of probability is there that bankruptcy announcements are on their way?

- The alternative must first be considered. That means banks, lawyers or a combination of the two seize assets and attempt a fire sale of the fleet as a whole or as individual vessels. The buyer gains tonnage at a reduced price, but will likely have to take on the burden of the debt attached to the vessel. A messy and complicated procedure best avoided by most and certainly the absolute worst case scenario. Easing of loan covenants, repayment extensions and creative refinancing the preferred option. This has already been seen this month as owners clamber to find the next get out of jail card, keeping them safe for another few months. Analysts across the board are predicting an industry recovery end-2016/start 2017, but few given any decent basis for what they see happening to spur on that recovery other than just a general lapse of time. Best case scenario, the industry picks up around then; it will still be too late for some owners.

Boa took delivery of Boa Jarl this month, the first new AHTS to hit the market in some time. Despite challenging conditions, the vessel went straight to work from delivery on a two anchor pre lay job in the far North. The vessel will return to Bergen to seek its next charter upon completion of the current job. Sister vessel to the Boa Bison which delivered almost a year ago, the vessel boasts ICE class C and upgraded thruster capacity on the bow.

WORLD'S LARGEST COMPANIES

	Company	Country	Market Value
#7	Exxon Mobil	United States	$357.1 B
#8	PetroChina	China	$334.6 B
#13	Royal Dutch Shell	Netherlands	$195.4 B
#16	Chevron	United States	$201 B
#24	Sinopec	China	$121 B
#27	Gazprom	Russia	$62.5 B
#35	Total	France	$120.2 B
#41	BP	United Kingdom	$120.8 B
#59	Rosneft	Russia	$51.1 B
#89	ConocoPhillips	United States	$80.5 B
#103	CNOOC	China	$64.4 B
#103	Statoil	Norway	$58 B
#109	LukOil	Russia	$43.5 B
#121	Eni	Italy	$64.2 B
#142	Reliance Industries	India	$42.9 B
#147	Phillips 66	United States	$42.6 B
#182	Valero Energy	United States	$30.6 B
#183	Oil & Natural Gas	India	$43.7 B
#188	Suncor Energy	Canada	$44.9 B
#198	Ecopetrol	Colombia	$33.6 B
#209	Surgutneftegas	Russia	$24.2 B
#218	Repsol YPF	Spain	$26.5 B
#225	PTT PCL	Thailand	$29.1 B
#257	Canadian Natural Resources	Canada	$35.3 B
#273	Marathon Petroleum	United States	$26.9 B
#292	EOG Resources	United States	$52 B
#331	Devon Energy	United States	$26.1 B
#349	Indian Oil	India	$14.6 B
#364	Occidental Petroleum	United States	$59 B
#395	Hess	United States	$20.8 B
#399	Husky Energy	Canada	$21.4 B
#416	Petrobras	Brazil	$44.4 B
#422	Marathon Oil	United States	$18.8 B
#483	Chesapeake Energy	United States	$10.1 B
#495	Inpex	Japan	$16.3 B
#528	YPF	Argentina	$15.9 B
#568	Woodside Petroleum	Australia	$21.5 B
#582	BG Group	United Kingdom	$43.5 B
#604	Anadarko Petroleum	United States	$44.3 B
#616	OMV Group	Austria	$9.4 B
#642	Tesoro	United States	$10.9 B
#677	Encana	Canada	$9.8 B
#706	Apache	United States	$24.4 B
#775	Noble Energy	United States	$19.6 B
#887	Pgnig Group	Poland	$8.7 B
#899	Ultrapar Participacoes	Brazil	$12 B
#900	Pioneer Natural Resources	United States	$25.9 B
#950	Continental Resources	United States	$18.2 B
#1032	Murphy Oil	United States	$8.9 B
#1039	Galp Energia	Portugal	$9.2 B
#1070	Idemitsu Kosan	Japan	$2.8 B
#1217	PKN Orlen	Poland	$7 B
#1282	MOL Hungarian Oil	Hungary	$4.8 B
#1341	Cosmo Oil	Japan	$1.2 B
#1508	Oleo E Gas Participacoes	Brazil	$73 M
#1515	Neste Oil	Finland	$6.8 B
#1553	Oil & Gas Development	Pakistan	$7.3 B
#1578	Range Resources	United States	$9.2 B
#1685	Newfield Exploration	United States	$6 B
#1728	Talisman Energy	Canada	$8 B

FORBES LIST OF WORLD'S BIGGEST PUBLIC COMPANIES

This month Forbes magazine published its list of the world's biggest companies based on sales, profits, assets and of course market value. The top four spots were occupied by Chinese banks, Warren Buffet's Berkshire Hathaway reached fifth place, so where did the world's oil and gas majors come in? Here's the list…

IDLE RIG COUNT GROWS

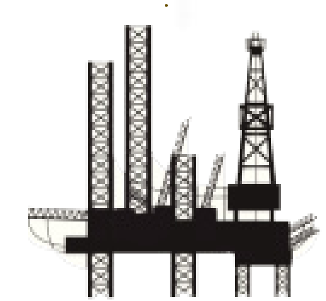
Rig layups and the effect on vessels is becoming extremely apparent. This month Statoil officially cancelled its contract for the COSL Pioneer, 13 months prior to the original end date. The 5th gen semi will be warm stacked as Statoil was unable to find employment for it, resulting in over 200 staff losing jobs. Maersk Drilling announced it would be downsizing its work force this year as two of its jackups, Maersk Giant and Maersk Guardian come off contract later this year with no prospects of further employment.

- Jackup ENSCO 102 which had been on contract to ConocoPhillips had its contract terminated early this month leaving owners with little option but to stack the rig. Vessels on hire to service drilling operations with the rig suddenly found themselves with contracts being terminated early too.

- Rowan Stavanger finished will shortly complete its charter with Talisman before entering the yard for some maintenance. After this the jackup has nothing lined up and indeed lay up seems inevitable.

- Fourth generation semisubmersible Henry Goodrich arrived in UK waters this month and Stril Commander and Olympic Poseidon picked up work for it from Transocean. Unfortunately this unit has been taken over from Canadian waters where it has worked for the past fifteen years into layup in the Firth of Forth. This is not a source for potential rig moves in the near future at least.

Just as we went to wrap up this edition of Navigator Statoil also announced it would be cancelling its contract for the Scarabeo 5.



NORTH SEA RIGS IN LAYUP 2015

	Manager	Rig Type	Rig Water Depth (ft)
ENSCO 70	Ensco	Jackup	250
Hercules Triumph	Hercules Offshore	Jackup	400
GSF Galaxy III	Transocean	Jackup	394
Maersk Resilient	Maersk Drilling	Jackup	350
Energy Endeavour	Northern Offshore	Jackup	300
GSF Monarch	Transocean	Jackup	361
ENSCO 102	Ensco	Jackup	400
Rowan Stavanger	Rowan Drilling	Jackup	430
Ocean Vanguard	Diamond Offshore	Semisubmersible	1500
Borgny Dolphin	Dolphin	Semisubmersible	1750
Ocean Nomad	Diamond Offshore	Semisubmersible	1200
Ocean Princess	Diamond Offshore	Semisubmersible	1500
Transocean Spitsbergen	Transocean	Semisubmersible	10000
COSLPioneer	COSL	Semisubmersible	1640
Henry Goodrich	Transocean	Semisubmersible	2000
Deepsea Atlantic	Odfjell Drilling	Semisubmersible	10000
Ocean Guardian	Diamond Offshore	Semisubmersible	1500
Stena Spey	Stena	Semisubmersible	1500
WilHunter	Awilco Drilling	Semisubmersible	1500
Sedco 712	Transocean	Semisubmersible	1600
West Navigator	North Atlantic Drilling	Drillship	7500

The cutting edge of cost saving

When it comes to inspection work, one company is re-writing convention and creating significant cost benefits in the process.

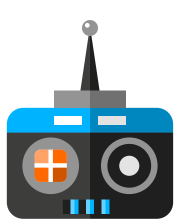
Cost reduction has had the spot light thrown on it these last months in the oil and gas industry. While cuts in staff and contractor rates have been ruthlessly implemented, many have turned to technology to provide the savings needed to keep themselves afloat. Offshore drones are being increasingly used to save time and money offshore. Drones are small unmanned aircraft vehicles (UAV) with eight blades and weigh around 2.2kilos. They can fly in wind speeds of up to 29 knots and could eradicate the need for scaffolding or rope access personnel for inspection work in the future.

Chris Blackford
COO & Co-founder Sky Futures

Labeled 'one to watch' at Bloomberg's Technology Conference

Sky Futures is a company with a sole interest in providing UAV inspection services to the oil and gas industry. Established by a group of entrepreneurs with a passion for unmanned aircraft, the company has grown significantly and now has offices in Houston, Aberdeen, Malaysia and Abu Dhabi. In addition to providing the drones and pilots who fly them, Sky Futures is developing a range of software solutions, entirely rethinking how oil and gas inspection can be carried out. Westshore spoke to Sky Futures COO and Cofounder Chris Blackford who talked about the road that's taken Sky Futures to getting over 36 oil and gas clients under its belt. "The North Sea was where we cut our teeth, but what we see now is the drones are becoming a normal tool in an oil company's tool box. The added value is now coming from the technology that supports it" Sky Futures is working on developing an inspection portal in order for data obtained from the drone flights to be analyzed in one convenient location, quicker and more efficiently. Laser sensors are being developed to take measurements from both flat and cylindrical surfaces and an airborne gas detection system is under development

A FIVE DAY INSPECTION JOB DONE BY A UAV WOULD TAKE EIGHT WEEKS TO BE COMPLETED USING ROPE ACCESS RESULTING IN A COST SAVING OF USD 4 MILLION.



36

Oil & Gas companies already utilised Sky Futures technology

for use in flare stack inspections amongst other uses. The team at Sky Futures have delivered a technology road map for the inspection sector based on experience and exposure to the problems faced from working in it. These problems have been evaluated and a drone based solution has been built or is being developed by the in house technology team.

The benefits from utilizing UAVs are tangible. On a recent five day inspection job carried out by a Sky Futures, the client confirmed the same work scope would have taken eight weeks to be completed using a rope access team resulting in a cost saving of USD $4 million. The most obvious work scopes offshore are flare stack inspections, emergency inspections (where the drones can fly in conditions up to 30% more severe than currently allowable for personnel) and splash zone inspections. While it's true that the use of drones on some of these jobs will negate the need for inspection personnel, drones and rope access can be complimentary systems. Using drone technology for first line inspections will provide more fabric maintenance work for rope access teams, a task that drones cannot fulfill.

Any technology that's going to eradicate the need for weeks long shut downs is going to grab headlines. And while Sky Futures has realized the potential of drones in today's troubled market, the future can only be further optimized from this high flying company.

ONE UP, FOURTEEN TO GO AT KENTISH FLATS EXTENSION

This month Vattenfall confirmed the first of 15 new wind turbines has been installed as part of the Kentish Flats Extension. The farm is expected to generate an additional 173000 megawatt hours per year or enough to produce approximately 5.3bn cups of tea!

$ 11%

Offshore wind cost reduction last 5yrs

£100/MWh

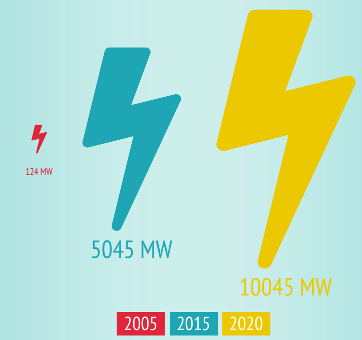
Cost target by 2020

2025

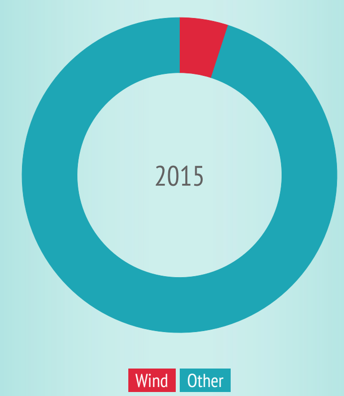
Date wind expected to be cheaper than nuclear

2030

Wind expected to be competing on price in open energy market



Installed offshore capacity UK



Market share of offshore wind in UK

New offshore farms UK by size

Create infographics infogr.am

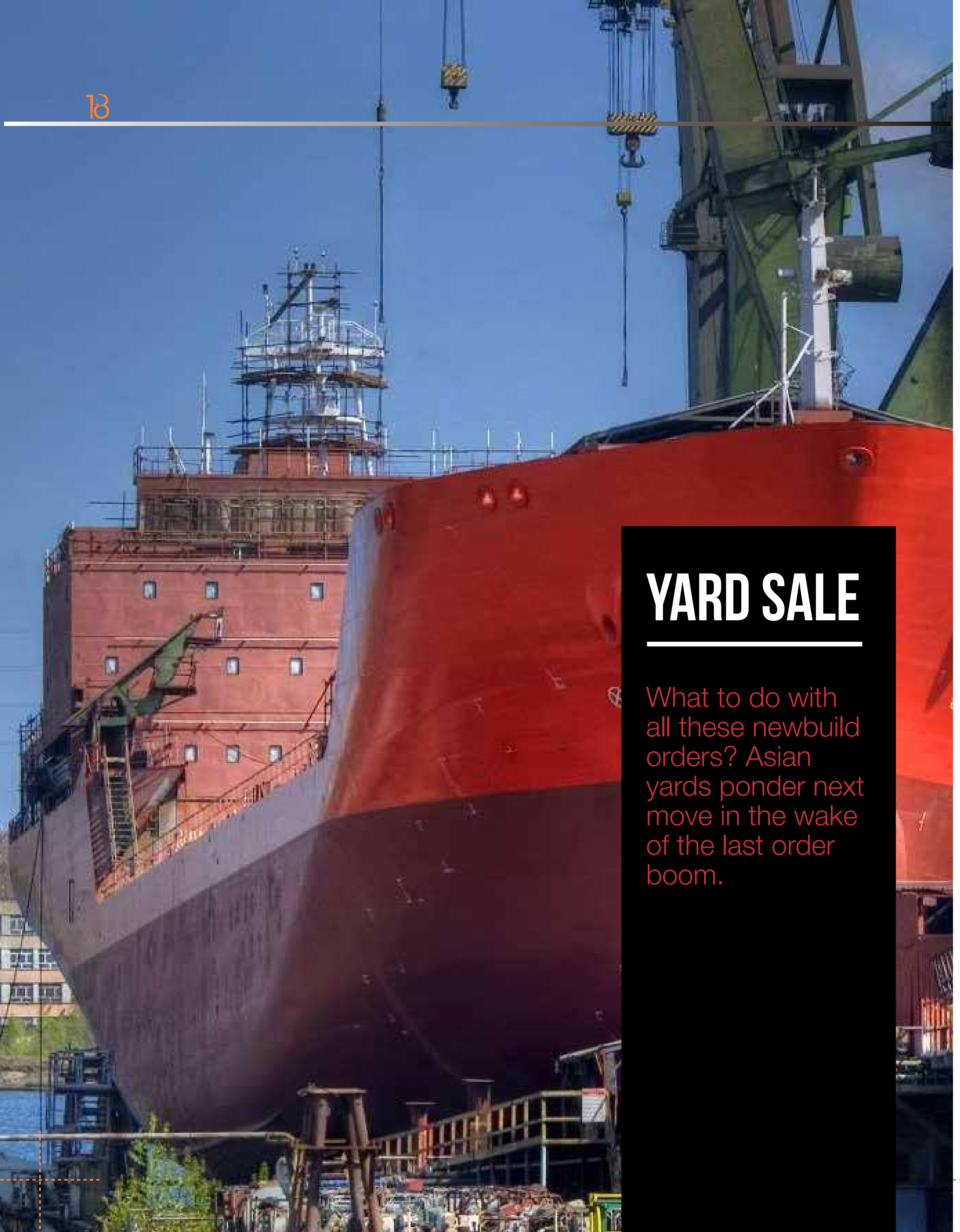
UK GOVERNMENT

LOSING INTEREST IN WIND?

While the push for clean energy remains a focus according to official, a recent decision by the UK Government emerged that subsidies for onshore wind farms were to be cut. Effectively this places 250 wind farms under development on the scrap heap. Energy Secretary Amber Rudd has been emphatic in expressing the subsidy was there to support emerging technologies for which onshore wind can no longer be classed as. It is time for the industry to be self-supporting, something some experts claim that it can be.

But how does the government's stance filter through to offshore wind farms? In contrast to what some see as the derailment of the onshore wind industry (which at present is the UK's cheapest form of clean energy) the government has publicly praised the offshore wind sector and stated it is "determined to back it". The caveat to this of course is the reasoning behind the cuts to the onshore projects, these subsidies were intended to boost new technologies and come time, when the government has deemed offshore wind to have reached a similar state, expect subsidies to be cut there too. She said in a recent key note speech at RenewableUK's Global Offshore Wind 2015 Conference "There is "no bottomless bill-payer support" for low-carbon technologies, she added, warning that "subsidy levels cannot be sustained indefinitely. [Subsidies are] provided now to enable the industry to reduce costs, invest and innovate. Government must help technologies eventually stand on their own two feet, not encourage permanent subsidy reliance."

For the time being at least, offshore wind appears to be firmly on the agenda for the current government. Subsidies and support will continue to feature heavily, but investors will be wise to keep an eye on costs as government help will not last forever and will be dependent on a continued focus on driving down the price of delivering those megawatts to market.



YARD SALE

What to do with all these newbuild orders? Asian yards ponder next move in the wake of the last order boom.

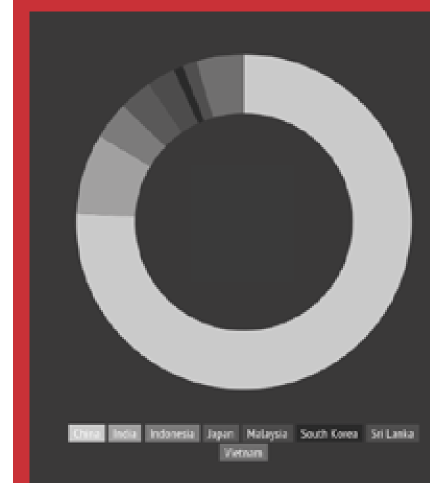
In Norway owners with newbuilds on order have worked hard these past months to delay delivery or cancel the order altogether, walking away from a 10% deposit being far preferable to taking delivery of a white elephant. But for the Asian yards, the list of orders for new offshore vessels runs into the hundreds, most of which will result in a vessel hitting the water. The resultant situation with buyers at their hardest trying to negotiate their way out of taking the vessel has forced the yards to think proactively. Almost three quarters of all newbuild OSV orders in Asian have been placed at Chinese yards. This has led to two of the most notable yards establishing offices in Singapore. The intention is to aggressively market vessels to customers in Asia or further afield via the buoyant Singaporean scene. The same strategy is expected from other yards in a bid to be every bit as ears to the ground as their competitors. Singapore offers a wide variety of interested parties from brokers to owners to charterers with global connections – something the Chinese need to proactively seekout.

The other option for yards is to offer flexibility. Proposing alternative design solutions for vessels on order can be an attractive option for buyers.

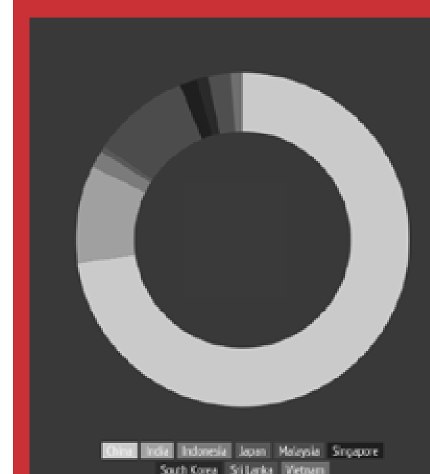
A 10-20% increase in investment could give you all manner of upgrades to a vessel, expanding its possibilities greatly. Modifications such as larger accommodation blocks, catering for up to 100 personnel, deck strengthening for subsequent addition of cranes and even walk to work systems for potential North Sea work all hold promise. Yards have been doing their best to offer this flexibility particularly for those vessels due to deliver early/mid 2016.

The quandary for owners remains however; take delivery of a vessel with little opportunity for profitable employment? Or delay delivery, loose warranties and guarantees under the contract (and pay interest) but avoid the headache of taking delivery during the tough market. Either way expect tough decisions ahead.

ASIAN PSV ORDERS BY COUNTRY



ASIAN AHTS ORDERS BY COUNTRY



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