ACHIEVING Business excellence ONLINE

MAX PETROLEUM

www.maxpetroleum.com

CORPORATE BROCHURE

Size isn't everything

Max Petroleum, a five-year-old startup launched with $46 million from an IPO, is poised to harvest rich rewards from one of the biggest hydrocarbon deposits in the world, Pam Derringer reports

Blessed with great timing, investment funds and industry smarts, London-based Max Petroleum Plc jumped on a rare opportunity to buy a stake in the oil-rich Pre-Caspian Basin in 2005 and snapped up lucrative oil and gas licenses to 5,212 square miles of land—about the size of Connecticut—in Kazakhstan, a former Soviet republic bordering the Caspian Sea.

Dwarfed by the megabillion oil giants in the region, Max Petroleum ironically gains some advantage from its smaller size because it can afford to tap wells that would be uneconomical for its larger neighbours to develop.

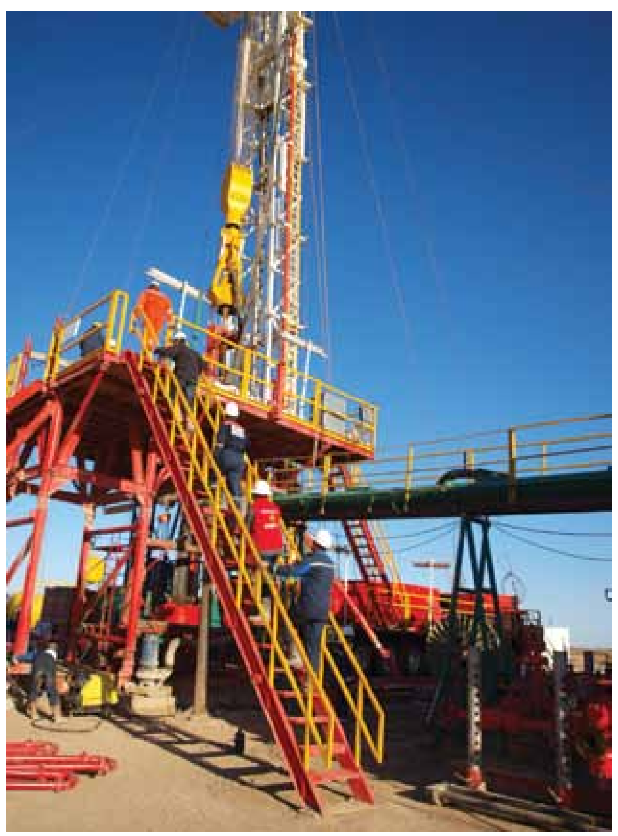
More significantly, Max Petroleum has acquired 1.3 million acres of state-of-the-art 3D seismic data, which President Michael Young says is a major competitive differentiator and the key to the company's future success. "3D seismic is not new, but this is the first broad use of onshore, exploratory 3D in the Pre-Caspian Basin," he says. Without 3D data, Max Petroleum would have had little chance of finding any attractive drilling prospects that the Soviets had not already discovered and drilled based on 2D seismic, used extensively to explore the Basin in the past.

But exploratory (i.e., widely spaced) 3D seismic can provide subsurface images of potential oil bearing structures that cannot be seen using 2D seismic, allowing Max Petroleum to see potential hydrocarbon deposits that the Soviets missed, which is key to the company's business strategy, he adds.

Nonetheless, Max Petroleum's commitment to go 3D wasn't for the faint of heart. Just two years old at the time, Max Petroleum's 2007 decision to go that route required a huge investment of money and time. Shooting 1.3 million acres of 3D seismic cost $35 million and took two and a half years, Young says.

This commitment, in turn, required the hiring of geologists and geophysicists to interpret the data; consequently, Max Petroleum coaxed Richard Hook, a veteran of international oil exploration, out of retirement in 2008 to recruit a Houston technical team experienced in analyzing similar terrain in the Gulf of Mexico.

The geologic analysis still continues, but by the end of 2009 the team of five had developed a portfolio of 12 shallow, post-salt prospects with mean target sizes ranging from 9 to 50 million barrels. The entire shallow portfolio will test 254 million barrels of aggregate resource potential for less than $24 million, or $2 million per well. Max Petroleum has even more explosive upside potential in its



deep portfolio, which consists of 11 prospects and five leads that range in size from 100 to 600 million barrels of oil each.

Undergirding Max Petroleum's success has been its deep roots in the oil exploration business, with James Jeffs, executive co-chairman, using his industry ties to recruit other top US oil industry veterans to manage and advise the fledgling venture. The team's seasoned expertise has been key, giving it the perspective to make the right decisions and the courage to take big risks, such as funding the costly 3D seismic program. The team also has strong political ties in Kazakhstan and the US, which is critical to successfully operating internationally, Young says.

In addition, management is savvy enough to know the company's limits and has wisely confined its direct activities to the shallow post-salt prospects that are relatively affordable to drill. The greater hydrocarbon potential—in the billions of barrels—is buried in the deeper, pre-salt deposits, which can cost up to $25 million apiece to drill, Young says. Instead of overreaching its capabilities, Max Petroleum plans instead to reach agreement with a larger corporation or corporations for deep well exploration. "We're looking for partners to share the cost for testing deep prospects," he says, adding that the company hopes to have a pact in place by next fall.

However, Max Petroleum intends to manage and oversee the drilling of the shallow, post-salt deposits itself according to an ambitious timetable, Young adds. "Our goal is to drill and test all 12 prospects by mid-year 2011."

To date, three of the 12 post-salt prospects have been tested, with one new discovery and two dry holes, which is in-line with the company's expectation to generate three to four discoveries out of the entire post-salt portfolio. Combined with a field extension discovered previously, Max Petroleum is currently producing 2,300 barrels of oil per day generating in excess of $4 million per month in revenue, Young says.

"That's what's exciting," he says. "We made the first shallow, new field discovery in the Basin since 1993. It was a relatively small structure which the Soviets had not shot 2D seismic over. As there wasn't any surface expression, we couldn't have seen it without the 3D data, the technical team and a lot of hard work."

Finally, Max Petroleum had the fiscal expertise to achieve smart growth, investing more than $300 million in acquiring, exploring and developing its acreage in Kazakhstan and increasing equity to $175 million and loans to $140 million. Annual revenues are expected to hit in excess of $40 million for the fiscal year ending March 31, 2010, and the company is cash positive using one drilling rig, excluding debt repayment, Young says.

But one of Max Petroleum's proudest achievements is that it accomplished all this, including completion of the costly 3D imaging project, during and following the 2008 international fiscal meltdown, which dropped the price of oil from $103 to $34 a barrel in less than two months and decimated company earnings and valuation, he says. Many smaller firms in the business did not survive because they couldn't raise capital, and many thought that Max Petroleum wouldn't either. "Everyone assumed our primary financial backer, Macquarie Bank Ltd., would push us into insolvency, which could have led to the cancellation of our subsoil license," Young says.

Instead, Max Petroleum developed a creative strategy to restructure its outstanding debt by issuing warrants representing an effective 35 per cent equity interest in the company in exchange for continued access to capital necessary to keep the company afloat. Most significantly, Max Petroleum won Macquarie's confidence by delivering on all of its operational milestones agreed to as part of the restructuring, including high-grading 47 leads generated from 2D seismic into the current high quality post-salt prospect inventory, restructuring its outstanding convertible debt, and syndicating part of the Macquarie loan. "We did everything they asked us to do when many thought it would be impossible given the worldwide economic crisis," Young says.

"That's the excitement of our story: where we are now, where we were at that moment and the key decision points," because Macquarie had to continue to fund the 3D processing to recoup its investment, he explains. "But we met every deadline, oil prices started to recover, and Macquarie now has the potential to earn much more.

"It was touch and go. But they've been a great strategic partner," Young continues. "We did this together. Now we're sitting on a unique opportunity in the next 12 to 24 months with the post-salt prospects, and we have huge potential on the deep. I don't know if we will ever see an opportunity like this again." www.maxpetroleum.com

–Editorial research by Bob Meehan

MAX PETROLEUM
www.maxpetroleum.com