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Northern Petroleum* - New offshore oil basin discovery: Buy at 90p with an increased target price of 149p

Northern Petroleum has announced an oil discovery of 72 metres of net oil pay in two turbidite fans at the Zaedyus exploration well, GM-ES-1 in offshore French Guiana. Northern has a 1.25% stake in this well where the operator Tullow Oil reports good quality sands. Zaedyus was drilled to test whether a mirror image of the Jubilee-play that had been successfully established in West Africa could be discovered on the other side of the Atlantic. The team now seems to have their answer. Without doubt this discovery opens up a new hydrocarbon basin. The well was drilled in water 2,048 metres deep and has currently been drilled to a depth of 5,711 metres. Drilling will continue to over 6,000 metres to calibrate deeper geology and is then expected to be sidetracked to gain cores over the reservoir section.

Operator Tullow is a real expert in drilling these turbidite fans and in West Africa has drilled about thirty such wells. Tullow is comfortable with the pre-drilled range of 300-700 million barrels of oil (mmb) recoverable figure which represents 4-9 mmb to Northern. But Tullow seem to suggest this could be just the start as in the area around Zaedyus there are another 5 or 6 similar sized structures; which have now been substantially derisked. The rig is likely to spend another couple of months on the well and following the analysis of logs, will provide better guidance of the resource potential. On the back of this discovery there could be fairly aggressive drilling of the area from the next 12 to 24 months which should provide a steady news flow. Derek Musgrove, Managing Director of Northern commented that *"It is a pleasurable experience to be working in an exploration group with Tullow, Shell and Total encountering and overcoming the operational challenges. I trust that we have gained some useful experiences to apply in the future offshore Italy where our interests are greater."*

In the Southern Adriatic there are also turbidite fans and here Northern has a far larger piece of the action. The truth is that Northern has never seemed to have been given recognition by the market for a series of potential half a billion plus barrel prospects to explore off the coast of Italy. These are potentially high impact exploration prospects where success could be transformational for the company. These exciting prospects lie within four core areas, one of which has already been snapped up by Shell, leaving three more core areas to trade. Northern has acquired a large number of key licences in prospective areas in offshore Italy, which is equivalent in size to more than 85 North Sea blocks. With applications pending, it could be that the company ends up with a licence area about the same size as that of ENI, the Italian multinational oil and gas company. Northern is now beginning the process of unlocking value offshore in Italy with a drilling programme. Partner Shell is expected to make a drilling decision shortly on the West Sicily Thrust Belt for a well to be drilled in 2012 which could led to a strong re-rating of the shares.

In late May 2011, more than 30% was wiped off the share price when Northern announced a reserve and production update; but the air was cleared by the results that followed soon afterwards. However since that time the company has made a series of positive announcements both from Italy and the UK. In late July, the board gave an update on its South Adriatic permits contains the Rovesti and Giove oil discoveries which between them hold a combined 53.2 million barrels of 2P reserves. The action now in F.R39.NP and F.R40.NP will be three fold. Firstly, there has been approval granted for the 3D seismic programme to be increased to 600km². Secondly, a contract had been signed for 2D seismic over permits, with survey scheduled to commence in late Q3 /early Q4 2011 which will help to de-risk significant exploration prospects. Thirdly, the two planned 3D seismic surveys are scheduled for Q4 2011 will now be intensified, targeting the Rovesti and Giove oil discoveries and a significant exploration prospect within these two permits. Meanwhile back in the UK, in recent days there has been news that the extended well test of the Markswell Wood-1 oil discovery in West Sussex licence PEDL 126 should begin in October 2011.

Key Data	
EPIC	NOP
Share Price	90p
Spread	89p - 91p
Total no of Shares	93.47 million
Market Cap	£84.12 million
12 Month Range	66.75p - 140p
Market	AIM
Website	www.northpet.com
Sector	Oil & Gas Producers
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Northern Petroleum offers a healthy cash flow from oil and gas production in the Netherlands plus the blue sky potential of drilling offshore in Italy. Last year the company achieved record revenue of €15 million but there was a pre-tax loss of €0.02 million after additional non-cash depletion and impairment charges of around €3 million. In 2010, two further gas fields went into production in the Netherlands making a total of six producing fields.

Looking ahead, one 2D and two 3D seismic surveys are planned in 2011 on the Southern Adriatic permits, which should allow for progress at the Rovesti and Giove discoveries alongside Northern's new partner Azimuth. Results from the Tullow-operated Guyane well are expected in August; and later on in the year the La Tosca prospect looks likely to be drilled. In addition, discussions are advancing between Shell and the Italian authorities concerning the future activities on the Thrust and Fold Belt permits. While in the Netherlands, there is continuing investigation of the considerable potential for oil shales that have been identified in the south west of the country.

An on-going economic and technical valuation has been carried out by the company for some time now which has involved reprocessing the 3D seismic data over the Geesbrug and Wijk en Aalburg fields as well as much of the rest of the Netherlands acreage. This downgrade of the reserves was made for the sake of prudence and the board seemingly pointed out that when all this data has been received and interpreted, the static and dynamic field models would be updated with the production data later this year and then it will be possible to make a further assessment of the reserves.

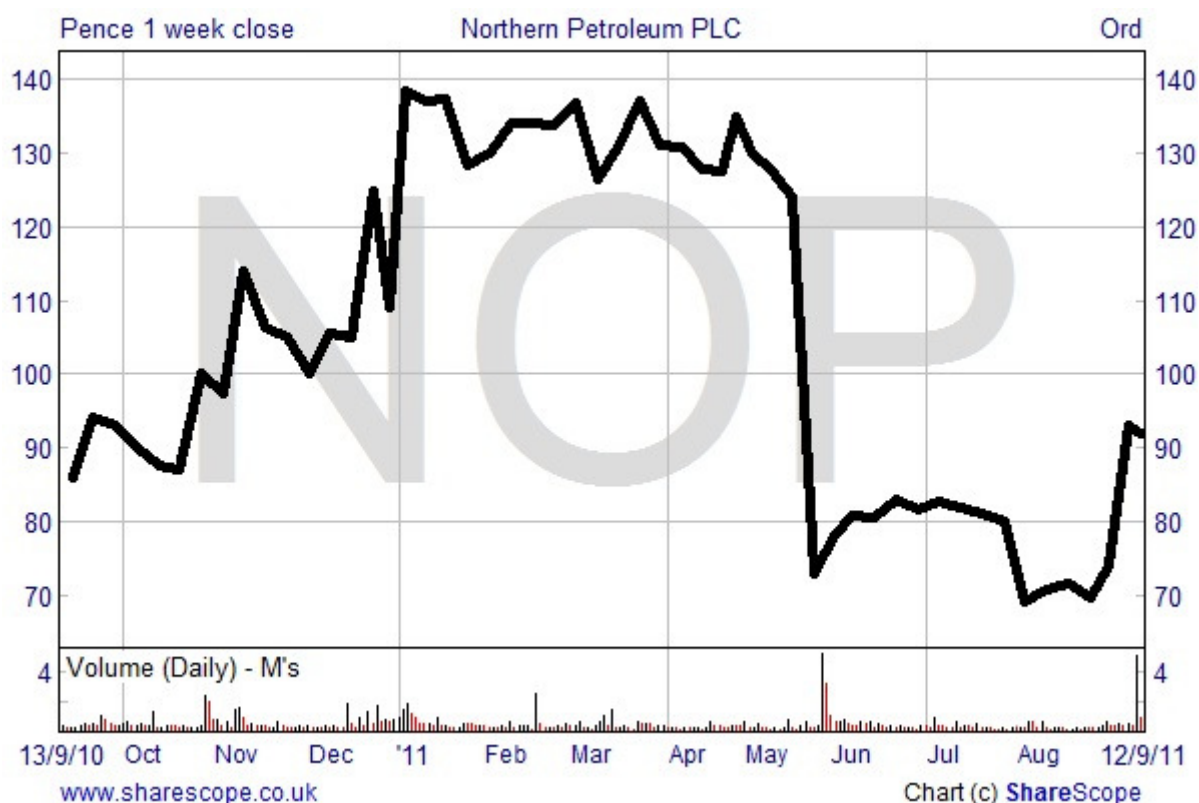
Over the past decade, Northern has consistently added shareholder value by growing its portfolio of good quality oil and gas prospects without paying high entry costs. The real focus has been on low priced assets where value can be added at a relatively low cost. At the heart of the strategy is the winning of valuable exploration licences which is followed by the company undertaking the necessary geological, geophysical and engineering work to dramatically add value before inviting larger players to farm in into the projects at an exploration or development stage, or traded to acquire production. The plan to acquire more seismic data is a clear sign that the board is accelerating the development of its assets in Italy which should allow farmouts to be agreed at better terms. A farmout deal has been agreed with Shell covering six permits on the company's acreage off-shore Sicily. On the back of the success with the Zaedyus we have upped our target price to 149p on the assumption that this discovery along with the similar structures that have been identified in that area could add 24 million barrels of prospective recoverable resource. Our stance remains at **buy**.

Financial Records & Forecasts

Year ending 31st December	Revenues (€ million)	Pre-tax Profit (€ million)	Earnings Per Share (¢)*	Price Earnings Ratio (x)	Dividend (¢)	Yield (%)
2008A	6.95	11.56	14.10	7.5	0.0	0.0
2009A	5.08	(3.12)	(2.90)	NA	0.0	0.0
2010A	15.00	(3.00)	(1.16)	NA	0.0	0.0
2011E	22.00	10.00	4.5	23.5	0.0	0.0

Source: Growth Equities & Company Research

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