

Big Oil: Down and 'Almost' Out of Venezuela's Faja

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Big Oil Sweet Six

Six (6) Big Oil companies were originally invited to Venezuela in the 1990s to assist the nation develop its extra heavy crude oil reserves located in the Orinoco Heavy Oil Belt (also known as the Faja).

The companies included:

- ExxonMobil (USA)
- Chevron Corporation (USA)
- ConocoPhillips (USA)
- British Petroleum (UK)
- Statoil (Norway)
- Total (France)

Across The Board Changes

The nationalization process that has been initiated by Venezuela's President Hugo Chavez proposes the following for the Faja projects:

- To raise royalty rates from 1-16.67% to 30%;
- To raise income taxes from 34% to 50%;
- To impose a 30-33% extraction tax;
- To mandate that the Venezuelan government has a minimal 60% interest in all hydrocarbon (oil projects).

To Stay Or Leave?

Of the original six Big Oil companies – ExxonMobil, BP, ConocoPhillips, Statoil, Total, and Chevron Corporation – that still remain in Venezuela we think one company has a 90-100% probability of walking away, two others are on the fence and could go either way while three others have too much to lose by walking away from the table.

What follows is a brief overview of each company's portfolio in Venezuela, among other details.

ExxonMobil 1 of 2

- **Headquarters: USA**
- **Operations synopsis: Cerro Negro heavy oil project (WI 41.67%); La Ceiba field (WI 50%)**
- **Fields/assets sold back to the gov't.: n/a. However, production at La Ceiba has been completely halted at the request of the government**
- **Fields/assets ceded to the gov't.: Cerro Negro**
- **Negative/positive points: USA company. Discussions between ExxonMobil and Venezuelan authorities not widely publicized**
- **Upside potential of other assets/activities: None**

ExxonMobil 2of2

- **Observations:** ExxonMobil frankly just played the wrong hand. The company tried to call the government's bluff when it threatened to go to international arbitration. Obviously this strategy backfired.

Further, the decision by ExxonMobil to announce it was in disagreement with the government's actions is something that Chavez indirectly brings up every time that he speaks of the nationalization process. Again, when Chavez says "if any company does not like the nationalization process they can just go home," we think ExxonMobil could easily be interchanged for the words "any company."

Recently, officials with the Venezuela government announced that "they have not idea whether ExxonMobil wishes to continue operating in the nation or not."

- **Probability of leaving: 90-100%**

British Petroleum 1 of 2

- Headquarters: UK
- Operations synopsis: Cerro Negro (WI 16.66%); Juespín field (WI 45%).

BP also has an interest in the newly created mixed company, Petroperijá S.A. which partners Corporacion Venezolana de Petroleo or CVP (WI 60%) and BP de Venezuela (WI 40%). BP also has an interest in another newly created mixed company, Boquerón S.A. which partners CVP (WI 60%), BP Venezuela (26.666%), and PEI Venezuela (13.334%).

- Fields/assets sold back to the gov't.: Juespín
- Fields/assets ceded to the gov't.: Cerro Negro
- Upside potential of other assets/activities: None

British Petroleum 2of2

- **Observations:** BP has pretty much been off the radar for the duration of the nationalization process. Where exactly the company is in the negotiation process is not widely known.

However, with the potential exit of ExxonMobil from Cerro Negro, BP could be in a good position to fill in the void.

On the light oil side, BP's interest in Petroperijá S.A. and Boquerón S.A. are two other reasons for the company to stick around.

- **Probability of leaving: 50%**

ConocoPhillips 1 of 2

- Headquarters: USA
- Operations synopsis: Petrozuata (WI 50.1%); Hamaca (WI 40%); offshore Golfo de Paria Este (WI 37.5%) and Golfo de Paria Oeste (WI 50%); Block 2 (Lorán) Plataforma Deltana (WI 40%)
- Fields/assets sold back to the gov't.: n/a
- Fields/assets ceded to the gov't.: Petrozuata and Hamaca
- Negative/Positive points: USA company
- Upside potential of other assets/activities: On the offshore gas side: Block 2 and the Gulf of Venezuela

ConocoPhillips 2of2

- **Observations:** ConocoPhillips, much like BP, has pretty much been off the radar for the duration of the nationalization process. Although we are not sure of the status of the offshore Gulf of Venezuela fields (Paria Este and Oeste) or for that matter Block 2, their mere existence could be enough reason for ConocoPhillips to stick around.

On the heavy oil side, the company participates in two projects, again, making it potentially beneficial for the company to stay around.

- **Probability of leaving: 50%**

Statoil 1 of 2

- Headquarters: Norway
 - Operations synopsis: Sincor (WI 15%); LL-652 field (WI 27%); Block 4 (Cocuina) Plataforma Deltana (WI 51%)
 - Fields/assets sold back to the gov't.: LL-652
 - Fields/assets ceded to the gov't.: Sincor
 - Negative/Positive points: European company
 - Upside potential of other assets/activities: On the offshore gas side: Block 4.
- Additional upside potential relates to Sincor II, if it materializes.

Statoil 2of2

- **Observations:** Statoil's interest in Sincor I and possibly Sincor II as well as the company's interest offshore, make it hard to believe the company would pull out at this stage of the game.

The company recently completed drilling its second exploratory well offshore Block 4 and expects to drill its third and final well by late 2007.

- **Probability of leaving: 20% or lower**

Total 1 of 2

- **Headquarters: France**
- **Operations synopsis: Sincor (WI 47%); Juespín field (WI 55%); Block 4 (Cocuina) Plataforma Deltana (WI 49%); Yucal placer (WI 69.5%)**
- **Fields/assets sold back to the gov't.: Juespín**
- **Fields/assets ceded to the gov't.: Sincor**
- **Negative/Positive points: European company; President of Total has come to Venezuela to discuss the company's interest in remaining in the nation despite all the changes**
- **Upside potential of other assets/activities: On the gas side: Yucal Placer (onshore) and Block 4 (offshore).**

Additional upside potential relates to Sincor II, if it materializes.

Total 2of2

- **Observations:** Total, like ExxonMobil, expressed its disagreement early on regarding the migration process with regards to the Juespín operating agreement.

However, unlike ExxonMobil, Total decided to release its field back to the government while it continued to negotiate with the Venezuelan officials regarding its other projects.

Total's participation on the natural gas side onshore and offshore as well as its interest in Sincor and possibly Sincor II, make it beneficial for the company to stick around.

- **Probability of leaving:** 10% or lower

Chevron Corp. 1 of 2

- Headquarters: USA
- Operations synopsis: Boscán field (WI 98%); LL-652 field (WI 63%); Block 3 (Lau Lau) Plataforma Deltana (WI 100%); Block 2 (Lorán) Plataforma Deltana (WI 60%); Hamaca (WI 30%).

Chevron also has an interest in the newly created mixed company, Petroboscan S.A. which partners CVP (WI 60%), Chevron (WI 39.2%) and Ineboscan (WI 0.8%).

Chevron also has an interest in another newly created mixed Petroindependiente S.A. which partners CVP (WI 74.8%) and Chevron (WI 25.2%).

- Fields/assets sold back to the gov't.: n/a
- Fields/assets ceded to the gov't.: Hamaca

Chevron Corp. 2of2

- **Negative/Positive points:** Although a USA company, Chevron in Venezuela is a special scenario as the government always speaks highly of the company's activities.
- **Upside potential of other assets/activities:** On the gas side: Block 2 and 3 (offshore). Additional up side potential exist in the Cardon block located offshore the Gulf of Venezuela.
- **Observations:** Chevron has arguably the best portfolio of projects in Venezuela. Chevron's interest offshore Venezuela and Trinidad make the offshore Plataforma Deltana an interesting play for the company, benefiting from its finds on the Trinidadian and Venezuelan sides of the maritime borders. With the potential exit of ConocoPhillips from Hamaca, Chevron could be in a good position to fill in the void as the company is said to have the largest budget of all of the Big Oil companies operating in Venezuela. On the light oil side, Chevron's interest in Petroboscan S.A. and Petroindependiente S.A. are two other reasons for the company to stick around
- **Probability of leaving: Zero**

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