

## Growth Equities & Company Research



# Thalassa Energy\*

## - AIM Admission

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29th July 2008

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## Thalassa Energy\* - AIM Admission

Thalassa Energy Ltd, a holding company incorporated and registered in the British Virgin Islands in September 2007, was admitted to AIM on 29<sup>th</sup> July 2008. It currently has one, wholly owned, operating subsidiary, Thalassa Energy Services Ltd, which is in the process of acquiring a Portable Modular Source System ('PMSS™'); equipment which can be installed on an oil service support vessel in order to provide the seismic energy source required for reservoir monitoring.

Reservoir monitoring allows greater hydrocarbon extraction by enabling production activity (reservoir drainage) to be precisely targeted and managed. With growing demand for hydrocarbons, fuelled by economic development, married with limited excess production capacity, declining new finds and rising exploration costs, this looks to be a market with significant growth potential.

As a new business, the company is not without investment risk, not least because it presently has no customers and hence no revenues. However, with the strong dynamics of its market, a clear strategy, experienced management and operations teams, and a market capitalisation of £4,263,858/\$8,500,000, a level close to our estimated book value, we consider the shares to have clear potential upside.

Key Data	
EPIC	THAL
ISIN Number	VGG 878801031
Share Price	Placing Price: £0.502 (\$1.00)
Total no of shares	8,500,000 (10,880,000 fully diluted**)
Market Cap	£4.3 million /\$8.5 million
Estimated net proceeds of the Placing	£2.8 million/\$5.5 million
Website	<a href="http://www.thalassaenergyltd.com">www.thalassaenergyltd.com</a>
Sector	Support Services (Oil & Gas)
Contact	Duncan Soukup (Chairman) 00 33 678 632 689

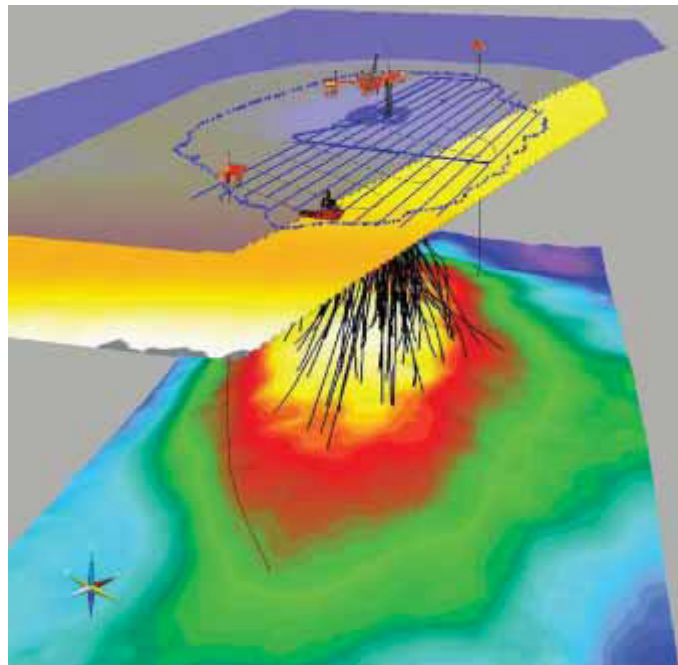
*\*\*Options have additionally been granted to WGP personnel in respect of 450,000 shares in Thalassa's presently wholly owned operating subsidiary and it is the company's intention to grant a further 600,000 such options. A total of 1,050,000 shares represent 15% of the subsidiaries' current ordinary share capital. In each case, the subscription price payable on exercise of the options has been determined to reflect the subsidiaries' total capital (debt plus equity), immediately following Thalassa's AIM admission.*

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## The Market

Significant increases in current and expected oil and gas prices reflect concerns about the demand/supply balance as growing demand fuelled by economic development comes at a time of years of under-investment in exploration, declining reserve replacement and the repatriation of significant reserves previously controlled by the major independent oil companies of the West. The result is a clear tangible requirement to maximise extraction from existing, known reserves and this is where Thalassa sees a market opportunity.

Reservoir Monitoring allows an operator to increase its return on investment by enabling increases in both the rate of hydrocarbon extraction as well as the life of a known oil field. Thalassa is seeking to offer its PMSS™ solution to companies looking to perform seismic data acquisition surveys at frequent intervals in order that data sets can be compared over time as a tool to analyse a reservoir. This technique is known within the industry as Life of Field Seismic.



*A schematic idea of a Life of Field Seismic installation over an active field. The details resemble those of the Valhall field in the North Sea.*

The market for a PMSS™ of the type Thalassa is to offer is forecast to grow rapidly over the medium term since the systems boast a number of advantages over back-of-boat towed streamer seismic surveys which have historically been relied upon for reservoir monitoring. As well as providing improved imaging and repeatability and enabling acquisition in obstructed areas, the use of a PMSS™ also has the potential to generate cost savings for client companies. In particular its portability – the components are to be built into standard size ISO containers for easy mobilisation and demobilisation anywhere in the world – offering a clear advantage over less mobile techniques.

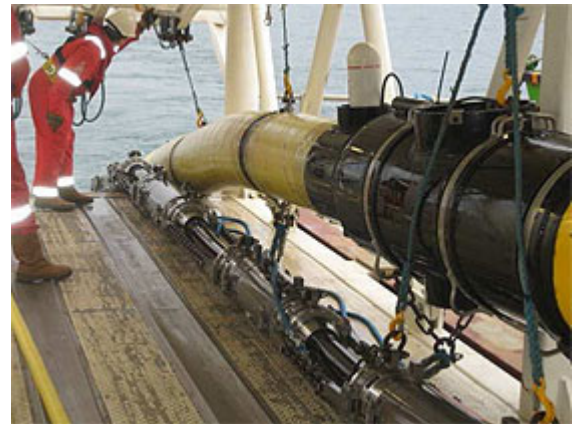


# Operations

The PMSS™ is designed to be installed on a standard platform supply or stand-by vessel to 'shoot' a signal over Ocean Bottom Cable installations on, or trenched into the seabed above the reservoir that is to be monitored. The seismic signals are detected by combined geophone and hydrophone sensors installed in the cables and the resulting seismic data is then transmitted to shore, processed and used to build detailed algorithmic models to enable a geo-physical team to analyse and plan the drainage management of the reservoir. The repetition of such data acquisition surveys with identical methodology and equipment enables data sets to be compared over time, allowing in-depth analysis of the reservoir of interest and greatly improving the extraction process.

Thalassa has entered into an initial five-year Equipment Procurement and Operations Management Agreement with WGP Projects Ltd ('WGP'), an established UK based seismic research contracting company, under which WGP will provide design, procurement and assembly services and manage the PMSS™ operations of Thalassa Energy Services. This includes negotiating the terms of contracts for such operations (subject to Thalassa's final approval) and providing the required staff. To date, orders have been placed for components for the assembly of a first PMSS™ from various suppliers in the UK, USA, Germany and Norway. This is expected to allow for the assembly of the source system by the fourth quarter of 2008.

WGP has participated in the development of Life of Field Seismic equipment for BP in the North and Caspian Sea's and currently manages a system on BP's acreage in the Caspian Sea. The company was established in 1994 and has managed a variety of seismic operations in all parts of the world. Its key management team has been together in various companies within the geophysical industry since 1979.



*Similar equipment to Thalassa's proposed PMSS™ unit; Left: Portable containers on vessel and Above: airgun array for 'shooting' seismic being operated by WGP for BP in the Caspian Sea.*

*(Photo's courtesy of WGP & BP (Caspian Sea) Ltd)*

Thalassa Energy Ltd was admitted to AIM on 29<sup>th</sup> July 2008 and raised £3,104,626 (\$6,189,073) through the issue of 6,189,073 placing shares. The proceeds raised will enable the company to complete the process for acquiring its first PMSS™ – the total cost of which will amount to £3million/\$6 million. Further units are anticipated to be acquired subject to the availability of funds for the company.

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## Strategy

The company's strategy is focussed on exploiting the increased focus on asset recovery by oil and gas companies, as a result of current high oil prices.

The key elements of this strategy are to:

- build PMSS™ units that can be deployed around the world, thereby increasing the market available to the group;
- create a cost effective solution for the Life of Field Seismic market. The use of PMSS™ has the potential to generate cost savings for exploration and production companies that have historically relied on towed cable seismic surveys for reservoir monitoring;
- focus on potential clients with major proven hydrocarbon reserves where significant capital and operational expenditure is expected;
- operate a scaleable model;
- attract and retain specialists and key personnel;
- identify, acquire, integrate and develop complementary businesses, where appropriate.



*Chirag Azeri Reservoir Seismic Project; Life of Field Seismic, Caspian Sea  
(Photo courtesy of WGP & BP (Caspian Sea) Ltd)*

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## Board and Management

### **Duncan Soukup – Executive Chairman. Aged 53.**

Mr Soukup has 25 years of investment experience. Having worked in investment banking for 10 years (1984-1994), latterly with Bear Stearns as managing director in charge of the company's non-US equity business, Mr Soukup set up his own investment management business in 1994.

Acquisitor plc, a company of which Mr Soukup was a director, was admitted to trading on AIM in January 2000. In 2002, 90% of the assets of Acquisitor Plc were moved to Acquisitor Holdings Ltd (Bermuda) and Acquisitor Plc was left as an investing company which then acquired Tinopolis Plc, a leading UK independent TV production company. In 2006, Acquisitor Holdings Ltd (Bermuda) merged with New York Holdings Ltd and Baltimore Plc. Shortly thereafter, the combined group was acquired by Oryx International Ltd, a Guernsey investment company. Mr Soukup is the Founding Shareholder and Chairman of Thalassa.

### **Graham Cole – Non-executive Director. Aged 61.**

Mr Cole specialises in advising growth companies on public offerings, capital raising, merger and acquisition strategy. He has been involved in over 60 public flotations (in London, on the Official List and AIM, and in Europe, on EASDAQ - now NASDAQ Europe). He has initiated, project managed and negotiated the acquisition and sale of a wide range of companies, both domestic and international, in transactions ranging from £2 million to £50 million.

Mr Cole qualified as a chartered accountant and was a partner at Deloitte Haskins & Sells before moving into corporate finance as a director of Beeson Gregory Ltd (now Evolution Securities Ltd) in 1995. He is a co-founder and past executive member of the Quoted Companies Alliance. Mr Cole has extensive experience as a director of both private and public companies including Stagecoach Theatre Arts Plc (Chairman) and Vantis Plc.

Mr Cole received the Lifetime Achievement Award for Services to the mid-cap. public company market in 2002.

### **Jim Grossman – Non-executive Director. Aged 68.**

Mr Grossman is an international businessman and corporate international lawyer with over 35 years of experience. He is a graduate of Harvard Law School now living in Paris, with business activities in London and Geneva. His experience has been involved in international business transactions, corporate and securities law, acquisitions, venture capital financing and international arbitration and mediation. Mr Grossman has served as a non-executive director on the board of directors of several public companies. He is currently non-executive chairman of Canoel International Energy Ltd, a capital pool company listed on the TSX Venture Exchange. He has served as a non-executive director of Champion Communications Services, Inc and World Gaming Plc (Mr Grossman resigned as a director the month before the appointment of an administrator of World Gaming plc in October 2006).

Mr Grossman has an active international arbitration practice as a member of i) the American Arbitration Association's International Disputes Panel and ii) the World Intellectual Property Organization's (WIPO) Arbitration and Mediation Domain Name Panel. He has been responsible for structuring licensing arrangements, distribution agreements as well as joint ventures and has advised both venture capital as well as technology company clients in the venture capital area.

Previously, Mr Grossman served as Chairman of the U.S. Foreign Claims Settlement Commission (appointed by President George H.W. Bush) and as chief negotiator for the United States in the tariff reduction acceleration round of the U.S.-Canada Free Trade Agreement (this pact was a precursor to the creation of NAFTA).

**David Thomas – Non-executive Director. Aged 58.**

Mr Thomas is a geologist with 30 years experience in the oil and gas industry, mainly in North and West Africa. After five years of working in South East Asia and then in London for North Sea operations, Mr Thomas spent the late 1970s and early 1980s working in Libya for Occidental Petroleum, and then in Tunisia for Tenneco. A return to London as International Chief Geologist for the Kuwait Petroleum Corporation gave him the opportunity to develop his technical management skills and establish a broad international contact network. In the late 1980s, Mr Thomas formed a consultancy, Thomas & Associates, offering a broad range of petroleum advisory services. Clients have included major oil companies and foreign government agencies. He served most recently as managing director of AIM-quoted MedOil Plc, a position he held for three years until the sale of the company to Cairn Energy plc in the fourth quarter of 2007.

*Other Persons Discharging Managerial Responsibility:*

**Christopher Langrick – Financial Controller. Aged 29.**

Mr Langrick is not currently a director of the company, however, it is anticipated that he may be appointed to the Board in due course.

Mr Langrick qualified as a chartered accountant in 2002. His most recent position was Transaction Services Manager with KPMG Europe LLP, where he has worked since 2003. Prior to joining the Transaction Services team, he specialised in financial services audit, working on the audits of HBOS Plc, Bradford & Bingley Plc and GE Capital Bank Ltd.

Mr Langrick has gained accounting, audit and M&A experience through his work on acquisition, disposal, refinancing and IPO transactions. In 2007, he managed the provision of services by KPMG Europe LLP in relation to the refinancing and subsequent IPO of Moneysupermarket.com Plc.

*Marketing Consultant:*

**Martin Smith – Business Development, WGP. Aged 54.**

The Marketing and Business Development Manager of WGP, Smith is a consultant to Thalassa and is responsible for overseeing the sales and marketing of Thalassa's services. He joined the seismic industry in 1975 and was previously a director of Trident Geophysical Ltd, a geophysical consultancy business which outfitted technical equipment on vessels for oil and gas exploration and production companies. He has extensive international sales, marketing and operations management experience and has been responsible for securing multi-million dollar contracts and managing personnel and hi-tech survey vessels.

*Operations Manager:*

**John Duncan – Managing Director, WGP. Aged 59.**

After 12 years as an Engineering Officer in the Marine Branch of the RAF, Duncan joined the industry in 1979 and worked for Horizon Exploration before founding WGP Projects in 1994. He has supervised design, building and outfitting of both deep and shallow water seismic survey and oceanographic survey vessels and has also bid for, and managed, seismic surveys in Europe, the Middle East, Russia, USA, Cuba, Australia and the Far East.

**Mark Burnett – Chief Operating Officer, WGP. Aged 36.**

With a BSc in Maritime Studies, Burnett has 12 years experience in the geophysical industry, initially gaining offshore experience as a seismic navigator followed by onshore roles of operations support and management. A professional operations manager in charge of all day-to-day matters requiring the utilisation of WGP's operational support organisation, he is also responsible for contract management and client liaison.



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## Strengths, Weaknesses, Opportunities and Threats:

### *Strengths:*

Thalassa benefits from a management team which combines extensive experience in quoted company directorship, investment and geology. The significant investment in the company by its founding shareholder and Chairman is particularly noteworthy. This experience and commitment combined with that of WGP means Thalassa looks well placed to exploit market opportunities.

### *Weaknesses:*

For many investors, particularly in the present uncertain economic climate, Thalassa's early stage of development and resultant lack of customers and revenues could prove a deterrent to investing in the company. Additionally, its heavy dependence on WGP might be perceived as a weakness since should this relationship breakdown, Thalassa's performance would likely be adversely affected until an adequate replacement is identified. However, we would note a similar situation exists in any small and medium enterprise where the loss of key personnel is likely to have a negative impact.

### *Opportunities:*

The potential for growth in Thalassa's target market looks impressive. The company is well positioned to benefit from both macro and micro trends moving in its favour. Increasing hydrocarbon demand, tight supply and higher prices together with the return on investment benefits that Thalassa's proposed PMSS™ offers potential clients and the company's relationship with WGP look to represent a strong platform for significant growth.

### *Threats:*

The overriding threat to Thalassa is the potential failure to win contracts. There are various factors which could contribute to this including competition, market conditions, or a lack of immediate acceptance of the emerging technology.

Additionally, the timing of contracts which emanate from the type of large-scale projects Thalassa is targeting are notoriously difficult to predict since they typically involve a lengthy and complex bidding and selection process. This can cause important management and operating resources to be diverted away from the day-to-day running of the business.

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## Financials

The Company's accounts as at 31<sup>st</sup> December 2007 showed \$389,000 of current assets. We understand that further commitments aggregating \$3.44 million have since been entered into, and that a total of \$2,300,927 has been lent by Duncan Soukup to the company.

The loan totalling \$2,300,927 advanced by Soukup to the company to fund such capital expenditure, as well as costs of incorporation and AIM admission costs, has since been satisfied by way of the issue of 2,300,927 shares to him. From the proceeds of the Placing, following AIM admission and after full payment for the initial PMSS™ purchase, the company will, we estimate, have approximately \$1.5 million of working capital.



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## Conclusion

With the undertaking of reservoir monitoring involving a significant investment from potential client companies, it is understandable that potential clients won't place orders until Thalassa's equipment is assembled and available for use. Given that Thalassa is presently progressing towards this, it is not surprising that the company has no customers yet and therefore no revenues.

However, while noting such risks, there are also strong grounds for optimism with both macro and micro trends moving in the company's favour. In particular, the agreement with WGP should create significant opportunities for Thalassa and while its reliance on WGP may be interpreted by some as a potential weakness it is worth noting that the agreement between the two parties is for a five year term and will continue in force thereafter until terminated by either party. WGP's expertise in Life of Field Seismic and established industry network should provide Thalassa a significant competitive edge – as too should the substantial capital requirements and lead time (typically 12 – 18 months for an assembled system) involved in the manufacturing process of a PMSS™.

While we believe it is too early to produce earnings forecasts at this point, with both Thalassa's own strategy and the dynamics of its marketplace appearing strong, and the shares on admission capitalised at a level close to our estimated book value, we consider them to have clear potential upside.

*\*Thalassa Energy is a corporate client of Bishopsgate Communications, which is owned by Rivington Street Holdings, the ultimate owner of GE&CR.*

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