



The Leading Source for Strategic Market Intelligence

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DEEPWATER MOMENTUM SOLID AMIDST FINANCIAL MARKET TURMOIL

Quest Offshore confidently maintains our subsea tree forecast for CY 2008 with projections for total tree orders between 419 and 445 with a strong showing of 96 subsea tree orders during Q3 2008 totaling over US\$2.2Bn.

Despite several weeks of turmoil in the global financial market, consensus among the "heavy hitters" of the offshore oil & gas sector is that the momentum and pace for deepwater projects has not been materially affected. Quest's preliminary forecast anticipates 2009 subsea tree orders to fall between 475 and 550.



This ongoing demand continues to be driven by projects in the "golden triangle": US Gulf of Mexico (GoM), West Africa and Brazil.

In terms of the recent financial issues and declining oil prices, industry sources feel that the deepwater market has built-in the flexibility to handle cyclical instability. Many pundits believe we have potentially seen the bottom of the current oil price decline. Taking a longer-term look at average oil prices historically, we have been working at record activity levels with buoyant results at an average oil price of US\$40/barrel (based on constant 2007 dollars). According to recent reports from both operators and contractors, there seems to be a consensus opinion that most deepwater projects are economically feasible between US\$60-65/barrel. Quest's opinion of continued strong demand for field development execution plans hinges on a long-term view of the deepwater market and its sound underlying fundamentals.

A key characteristic of the newest crop of deep and ultra-deepwater projects is a more consistent demand for one or more component of subsea processing. Whether it is the heavy oil of Brazil or the ultra-deep water of the lower tertiary plays in the US GoM, subsea pumping is a necessity for these projects. With respect to major West Africa projects and to some extent the North Sea, subsea separation is becoming a viable option to replace costly topside separation equipment. FMC Technologies, who currently has five subsea processing projects under their belt, anticipates targeting 12-14 additional subsea processing jobs within the next four years. With the

average separation system costing between US\$100-200MM, the potential revenues from this growing market niche could have a large impact for any supplier.

The expected continuation of global demand moves beyond subsea into all markets involved in the larger deepwater arena. The deepwater drilling market acts as both a long lead indicator on behalf of the exploration work they perform as well as a near-term indicator of projects currently being executed. Petrobras is still expected to go to market with the first two of four deepwater MODU packages in 2009 with each package containing seven rigs. With US\$60/barrel oil, the drilling market in general does not currently see an adverse affect on the demand for deepwater drilling units and day rates; moreover, in most cases contractors still expect demand to eclipse supply in the near future. Quest remains bullish towards FPS demand over the next several years with Petrobras in Brazil and super majors in both West Africa and the lower tertiary of the GoM driving their major project plans forward.

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