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GROWTH IN DEEPWATER SECTOR HOLDS PROMISE NEAR-TERM VOLATILITY MAY AID CURE FOR SUPPLY CHAIN WOES

Given the current shifts in the global economy, the environment in which oil companies find and develop reserves has also changed – albeit for what is assumed to be a relatively brief period. While the ramifications of a global recession for the offshore oil and gas industry are somewhat obvious, smaller niche markets require further investigation.

In general terms, there is heightened movement among the industry's oil companies to drive field development costs lower given the economic challenges facing the industry. Many super majors have publically stated a desire to reduce costs to a "more balanced" level. This may very well result in oil companies delaying final investment decisions on future projects until such a time as prices for equipment & services are considered to be "more balanced."

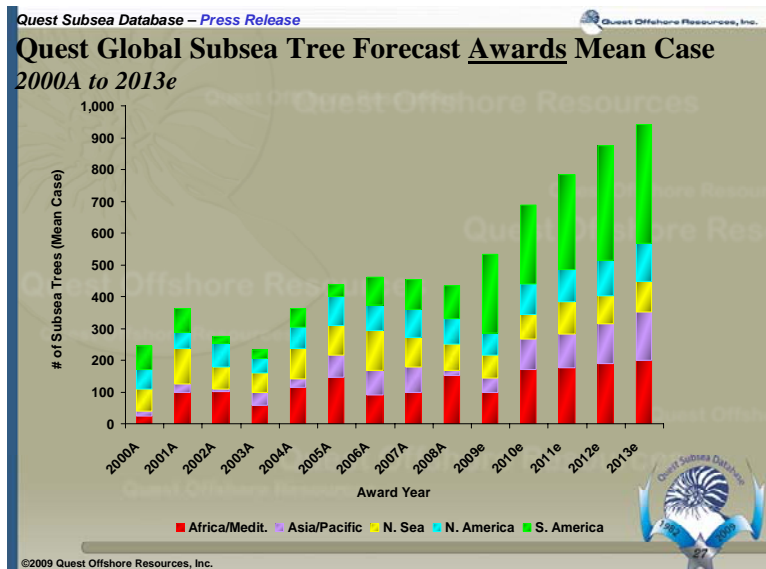
Quest believes this re-adjustment period will be a timely antidote for meaningful segments of the deepwater sector and particularly the SURF industry overall effectively laying the groundwork for improvements in project execution and other efficiencies. The current climate will also most likely facilitate further mergers and acquisitions within the sector providing certain advantages for those companies possessing the best overall strategic positioning, manufacturing and asset mix.

Moreover, as activity levels are projected to return to normalcy within the next 12 months, Quest believes that certain elements of the global supply chain for deepwater services will see bottlenecks over the next 24-36 months that will require significant capital investments. Quest is actively dissecting this scenario and will be forthcoming with relevant analysis near-term.

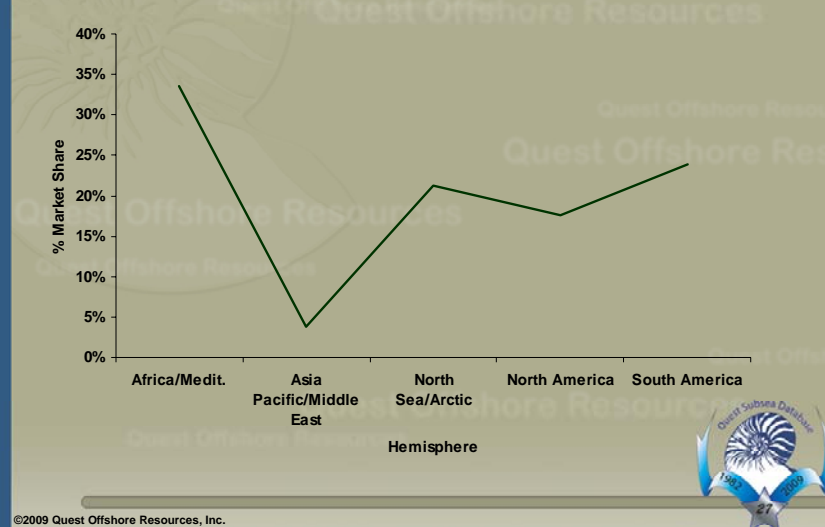
GROWTH IN SUBSEA SECTOR HOLDS PROMISE HEALTHY 2008 ORDERS INTACT

Quest Offshore's forecast for global subsea tree awards (mean case) reveals a solid volume of activity over the next five years resulting in a 12.1% compound annual growth rate (CAGR) compared with the previous five years which yielded a CAGR of 3.6%.

Growth prospects are sound for meaningful subsea orders during 2009-2010 buoyed by notable projects offshore Brazil and Africa. However, awards may be tempered in 2009 by the potential slow down of final investments decisions (FID) on certain world class projects as oil companies actively look, and possibly wait, for cost reductions and concessions from all aspects of the global supply chain.



Global Subsea Tree Market Share by Hemisphere CY 2008 – 434 Trees



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The subsea hardware market remained strong in 2008 totaling 434 global subsea tree awards with prominent activity from West Africa, Brazil and an impressively resilient North Sea. CY 2008 was on par with 2005 levels of 438 subsea trees and slightly below 2006 and 2007 which totaled 462 and 454 subsea tree orders,

respectively. Notably, final 2008 award numbers were within 5% of Quest's base case forecast at Autumn 2007.

With oil prices still hovering around \$30-40/bbl, the industry remains unsure as to what the future holds, but consensus remains that the subsea sector will remain relatively unaffected longer-term with large projects remaining on the books and cash-rich operators poised to continue development activity in the current environment. During 1H 2009, Petrobras is expected to award the largest subsea tree tender in history, totaling up to 300 subsea trees with associated manifolds and other hardware. This trend is expected to continue over the next five years as Petrobras aims to more than double its domestic production by 2020.

West Africa remains a bright spot for future subsea activity with ongoing activity by bp, Total, Chevron and ExxonMobil to name a few. Further phases of bp's Block 31 development remain active with the second phase potentially facing slight delays as is the norm for most large West Africa developments. Total's Clov project off Angola is also moving back and forth from a late 2009 award to a potential early 2010 award. ExxonMobil is actively working to bring their dual-phase Kizomba Satellite project through to execution. Quest expects Cameron and Vetco Gray (GE Oil & Gas) to compete for the cumulative ~40 subsea trees to be awarded over the next two years.

The Asia Pacific subsea forecast is still bullish over the next several years with Australia leading that demand. Large gas projects by Woodside, Royal Dutch/Shell, ExxonMobil and Chevron as well as other smaller operators dominate the region. The Mediterranean Sea around Egypt and Israel are also gaining steam with notable projects from bp, Noble Energy and ENI driving future awards. The US Gulf of Mexico, meanwhile, is gearing up for major project awards out of the Lower Tertiary plays pending final sanctioning. Among these are Chevron's Jack/St. Malo (~24 subsea trees over two phases) and bp's Kodiak/Tubular Bells.



Noble Energy, LLOG and Anadarko have all recently signed frame agreements with FMC Technologies indicating confident expectations of the region into the future. Other operators also find themselves well placed to continue to participate in the US GoM including Royal Dutch/Shell (Stones, Europa Satellites and expansions around Ursa) Nexen Petroleum (Knotty Head, Longhorn and Shiloh) and Murphy Oil (Dalmation, future work around Frontrunner and Medusa). Aker Solutions, Technip and Acergy are key contractors well placed to gain significant market share from growth in the deepwater Gulf of Mexico. The North Sea has been highly active in recent years and Quest forecasts the region to stay relatively flat with some growth out of the Norwegian sector (ENI's Goliat and Gazprom's Shotkman) and West of Shetlands (Total's Laggan and Chevron Rosebank/Lochnagar).

FPSO MARKET OUTLOOK MIXED

In terms of the market for FPSO units, Quest Offshore has observed certain shifts in activity given the current economic climate; however, these shifts are limited in number and impact. As with all sectors,

new orders will be hurt by delays in project sanctioning with some additional knock-on effect from operators experiencing financing issues.

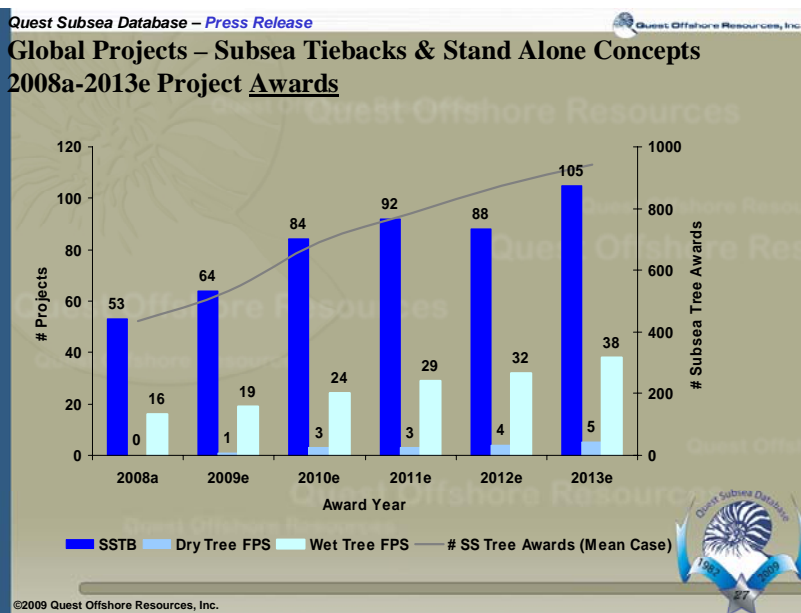
A key consideration for this market is the elasticity of demand for FPSO units. Since FPSO's generally require a much shorter build-time than other FPS systems, experience has suggested that the demand for FPSO's is somewhat elastic, as oil companies utilizing such a system have an increased flexibility in the timing of their projects.

In total, Quest has pinpointed five FPSO projects that have recently seen material delays. Two of these projects are in West Africa, two in the North Sea, and one in Brazil. In total, these fields account for the shifting of approximately US\$10 billion of field development investments (the stated amount represent full field development), of which roughly US\$6.9 billion are tied to FPSO cost. However, it is important to note that none of these projects have been "Cancelled" and figure to play an prominent role in future portfolio considerations for their owners.

The FPSO market, while

often lumped together for analysis purposes, is in reality composed of multiple markets with very different dynamics. On the top of the heap is the market for large new build, purpose-built FPSO's (primarily targeted to Africa and for permanent developments in South America). For this market segment, current conditions are less threatening as projects have a longer time scale, operators are more financially secure, and any leased units that come off contract are likely to be amongst the more desirable units bidding on a given job.

The second segment consists of moderately sized and equipped FPSO's. For the most part, this segment is protected by long-term contracts and is relatively safe from current market conditions. FPSO owners with a large number of units either out of contract or soon coming off guaranteed contracts are Quest Offshore Resources, Inc.



somewhat vulnerable as a lack of financing could delay the uptake of both new and existing units by less financially secure operators. It is possible that some of these mid-market FPSO's will be displaced by higher specification units that have gone off contract, and may additionally displace some of the lower specification FPSO's discussed below.

The third sector of the FPSO market is the most vulnerable under current conditions and is hurt by the tri-effects of (1) low oil prices damaging marginal field economics, (2) under financed FPSO owners, (3) a large number of speculatively built and off contract FPSO's, and contract competition from higher specification FPSO's.

This sector is primarily composed of older FPSO's and speculatively-built smaller FPSO's targeted at either early production system (EPS) work or marginal field development. While EPS work would seem to be attractive to companies desperate for cash flow, the types of companies targeting early production systems for cash flow purposes are likely to be the same types of companies struggling with financing and thus possibly unable to raise the capital to fund such a project given the current economic environment.

Marginal field developments are even more vulnerable as operators participating in them are likely in a similar financial situation, with the addition of low oil prices making many marginal field developments questionable at best. For older FPSO's the prospect of coming off contract and rapidly finding new employment (with only minor refitting) that seemed so certain not long ago is now growing increasingly unlikely as more and more FPSO's come off contract and struggle to find takers.

However, it is possible that if conditions take longer to improve than is currently envisioned, and higher specification FPSO's move into the lower specification shallower water Asian market, some of these older FPSO's could be destined for the breaking yard.

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