

Global Exploration Farm out Update, Challenges of the Evolving Landscape

(excluding North America)

**Based on most of the publicly available information
and JSI's opinions**

2015 predicted trends and outcome

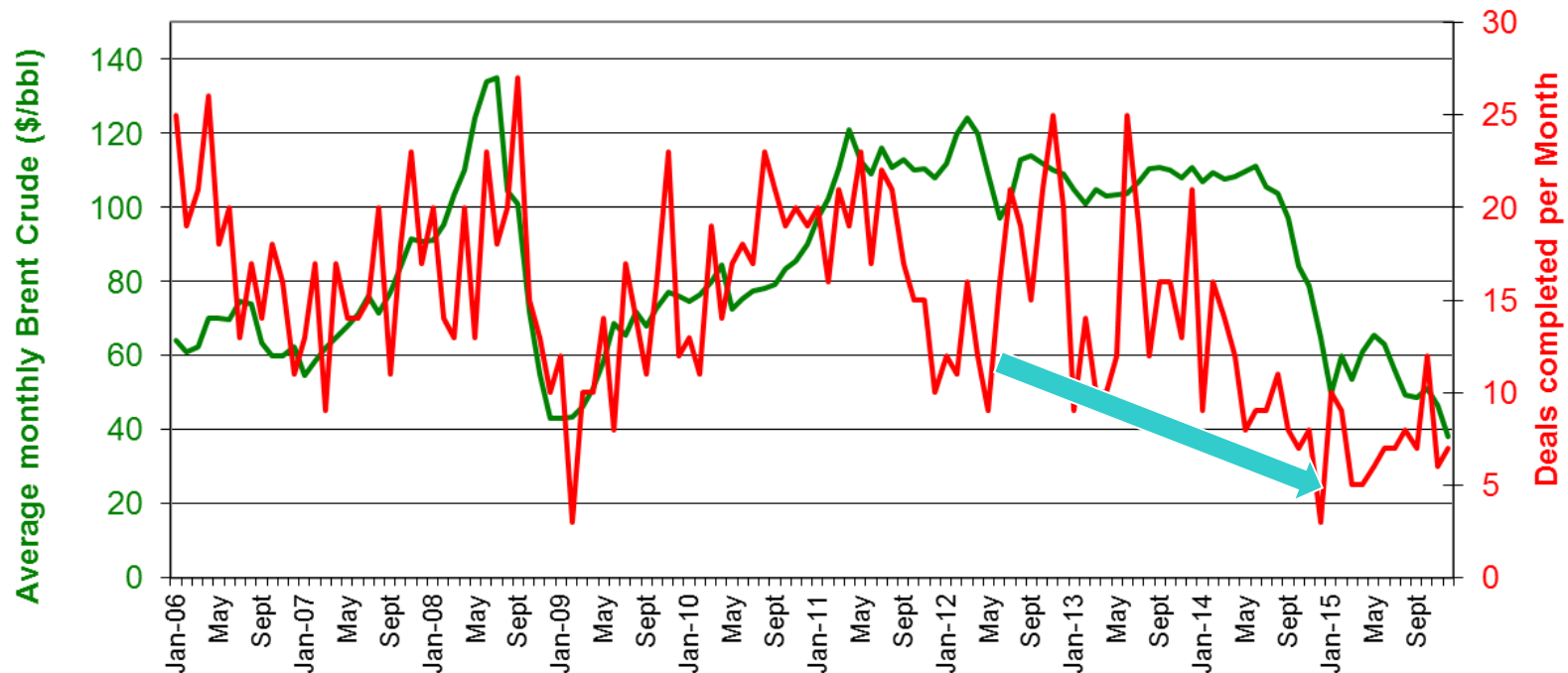
- *Assuming some oil price recovery*
 - Farm in activity will increase ☹️
 - Drilling activity will decrease 😊
 - Discovery sizes will rise 😊
 - Drilling success rate will rise 😊
 - Unconventional deal making will increase ☹️
- *There may be good surprises in 2015* ☹️

Challenge 1

- When is the best time to market a deal?
- When is the best time to start to farm in?

Announced Deals vs Oil Price

Announced Deals vs Oil Price



Since 2011 deal flow has declined and is now at levels last seen in 2002 when oil was \$23 per barrel

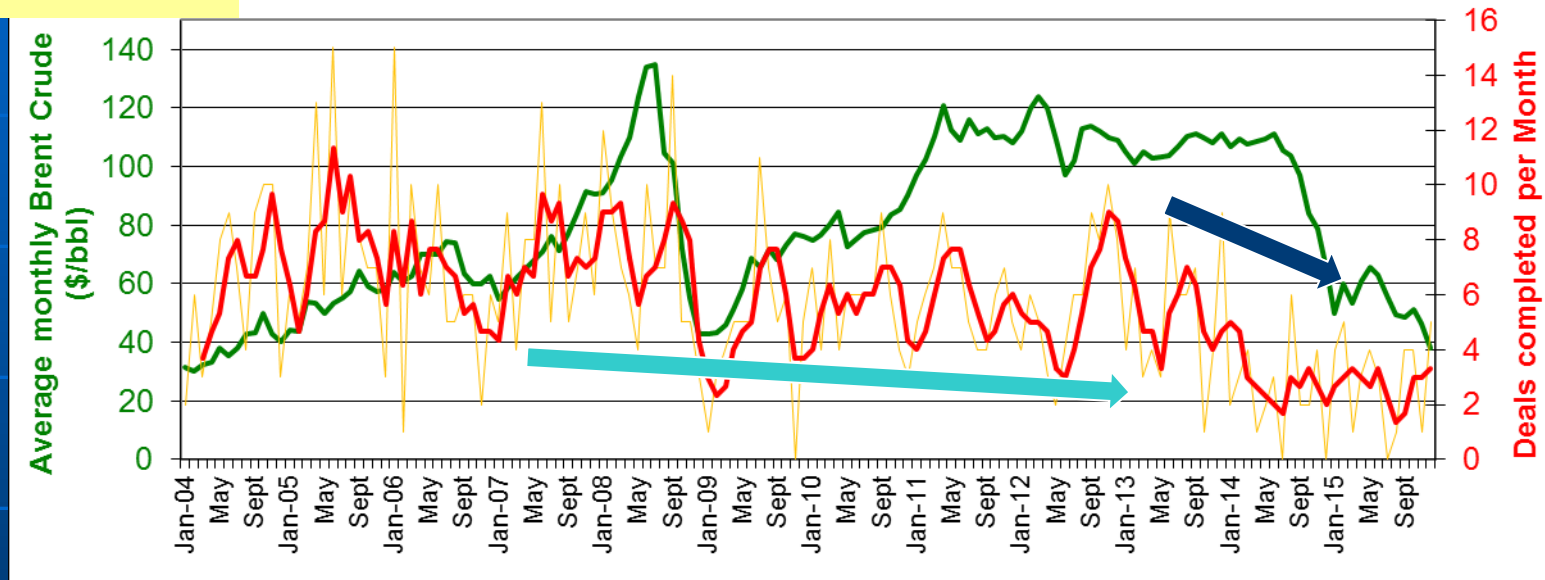
Farming out is now harder than it has been in the last 10 years

Announced Shallow Water Offshore Deals

Water depth < 500m

Smoothed
Deals curve

Announced Shallow Offshore Deals vs Oil Price



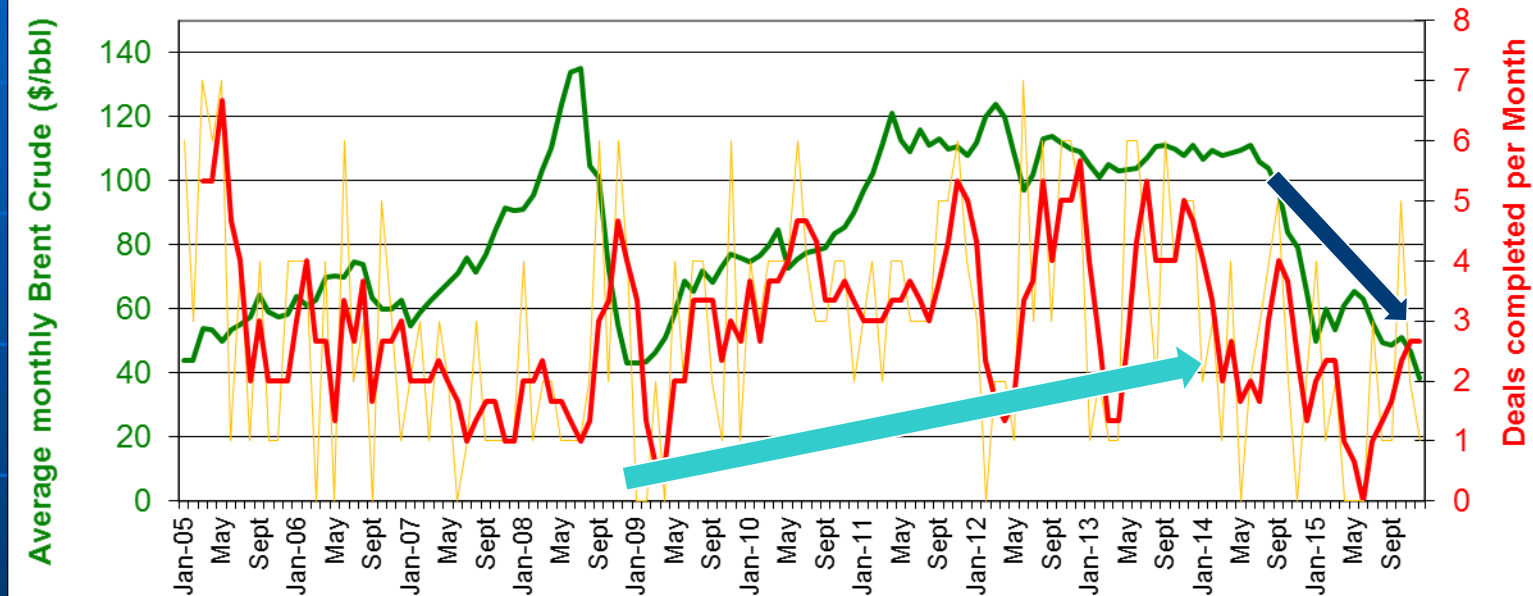
- Shallow water deal making has declined slowly since 2007
- This was due to a switch to deep water exploration
- There was a faster decline from late 2012 to early 2014 as companies really turned against shallow water
- Deal making has been flat for 18+ months

Announced Deep Water Offshore Deals

Water depth > 500m

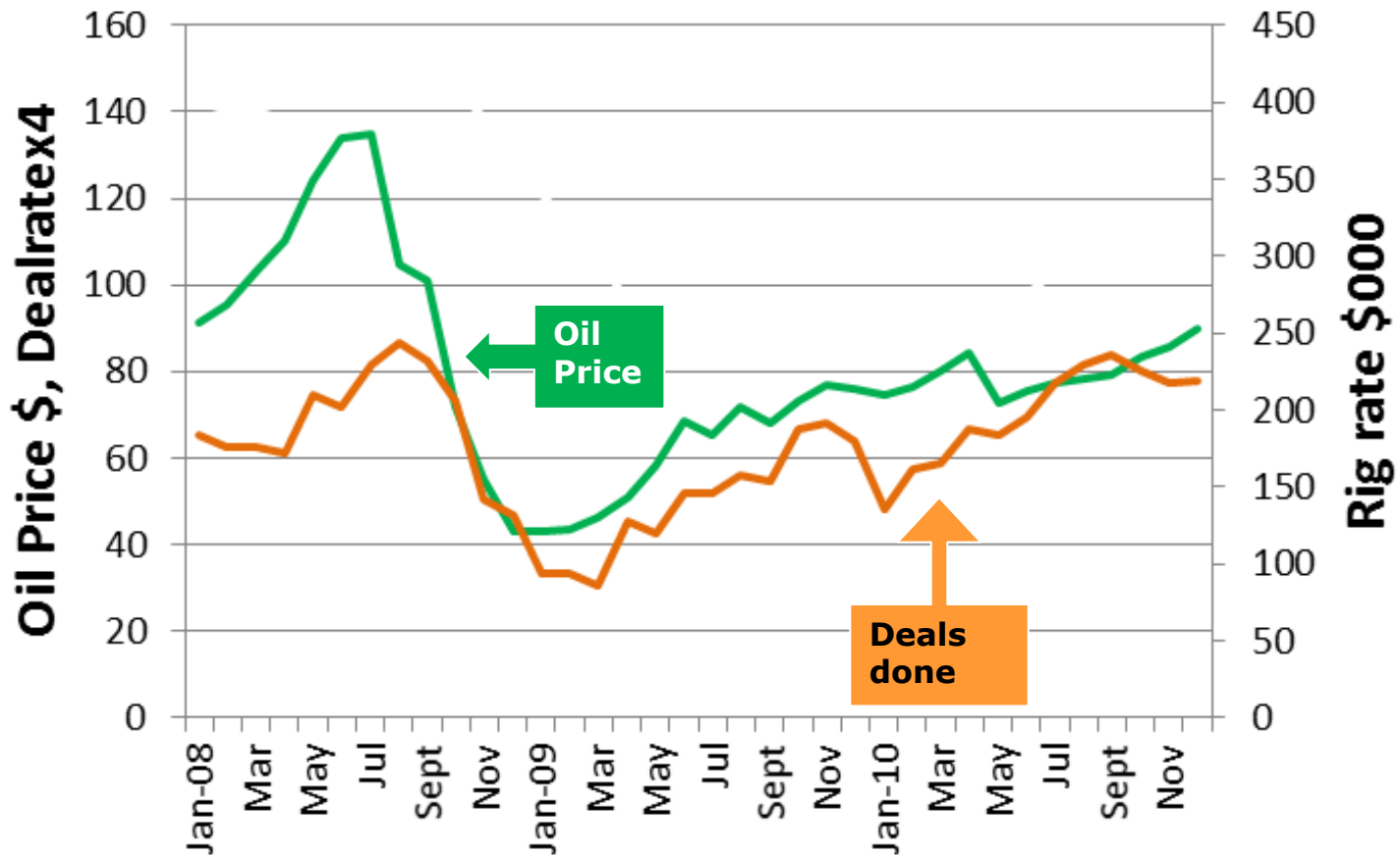
Smoothed
Deals curve

Announced Deep Offshore Deals vs Oil Price

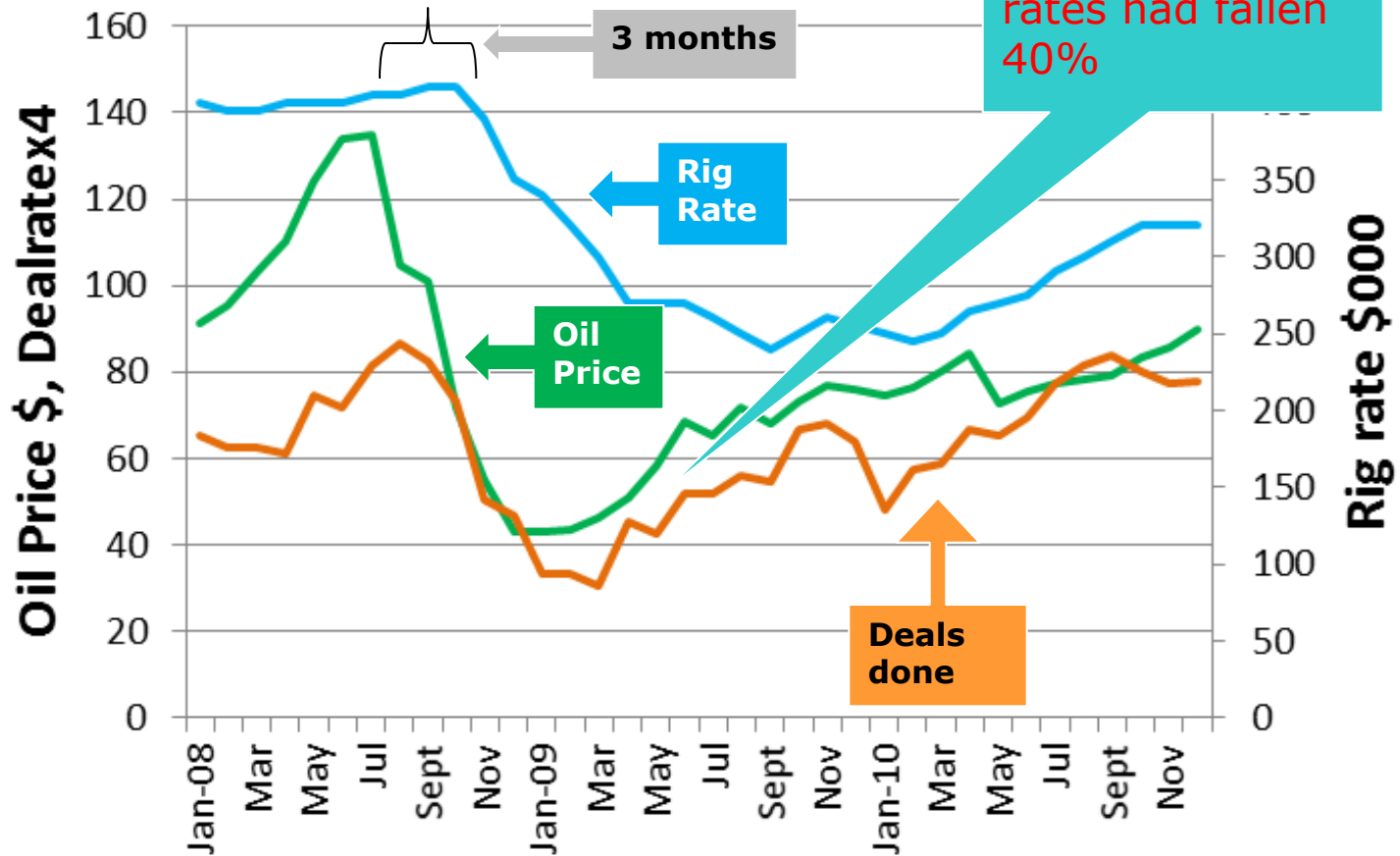


- Since a slump in 2007 Deep Water deal making has increased and did not show the collapse in September 2011
- Though erratic there has been a fall in Deep Water activity in 2014-15 with a slight pick up lately

2008-9 Oil Price Effect

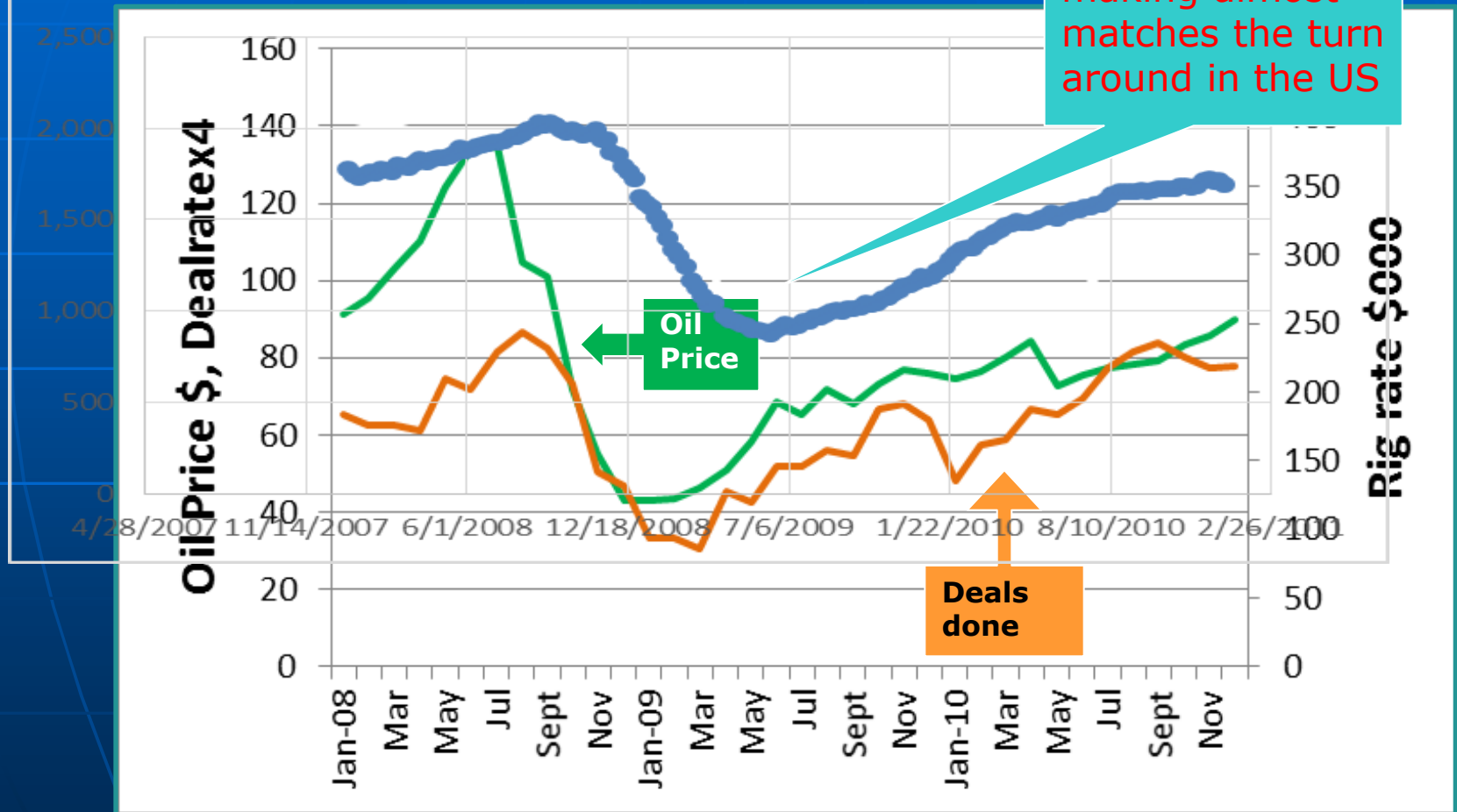


2008-9 Oil Price Effect

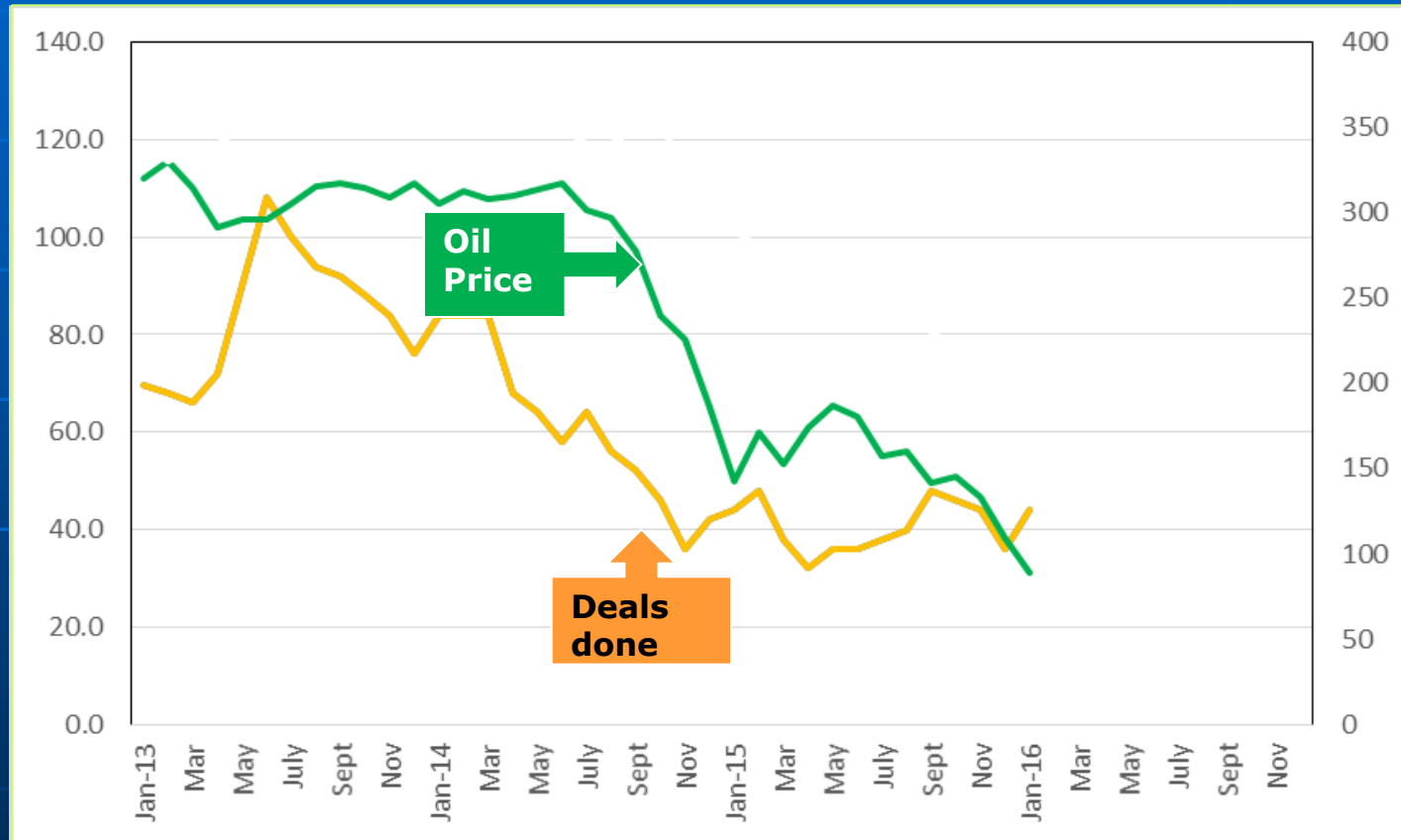


2008-9 Oil Price Effect vs US Onshore Rig Count

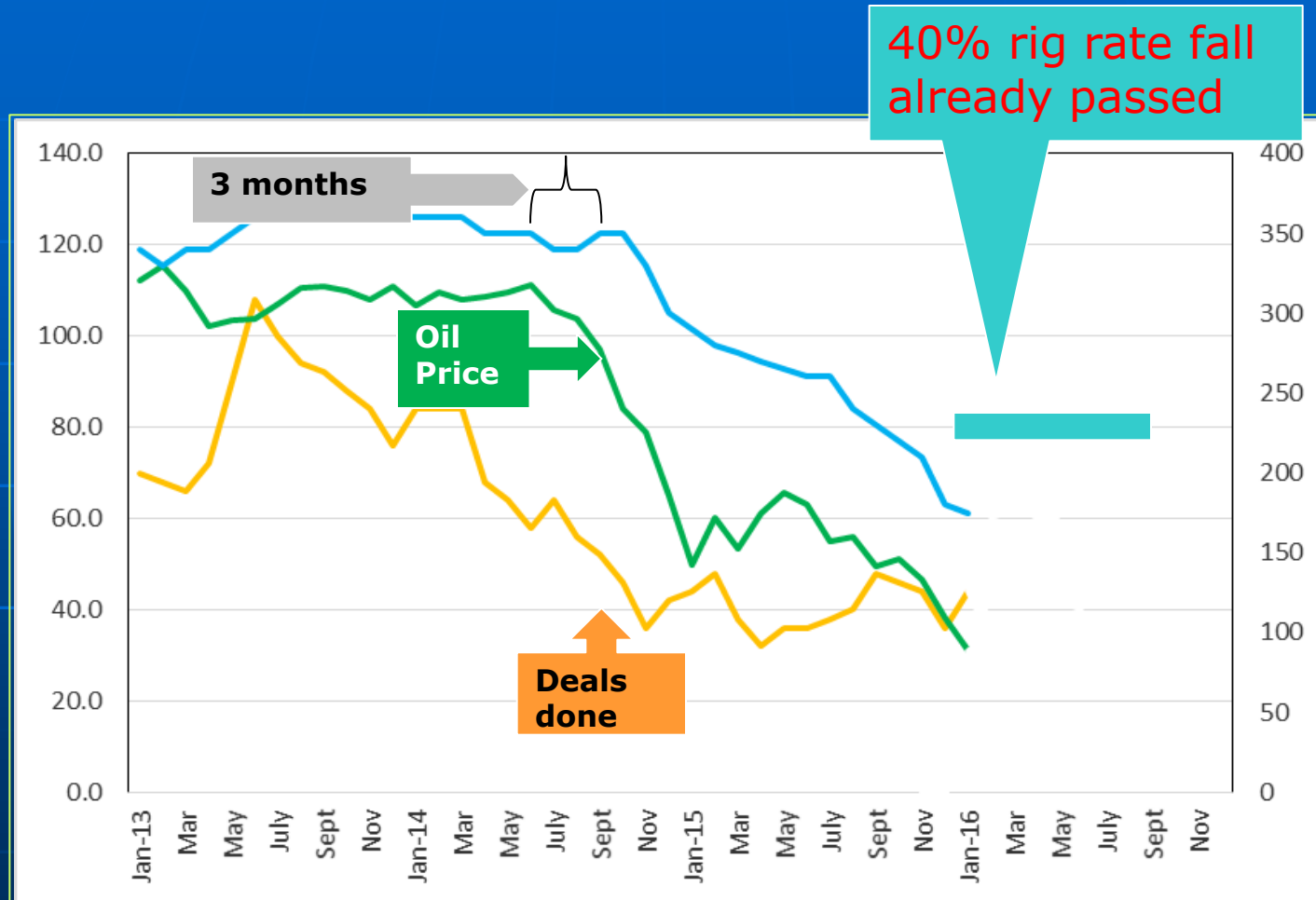
US Rotary Rig Count



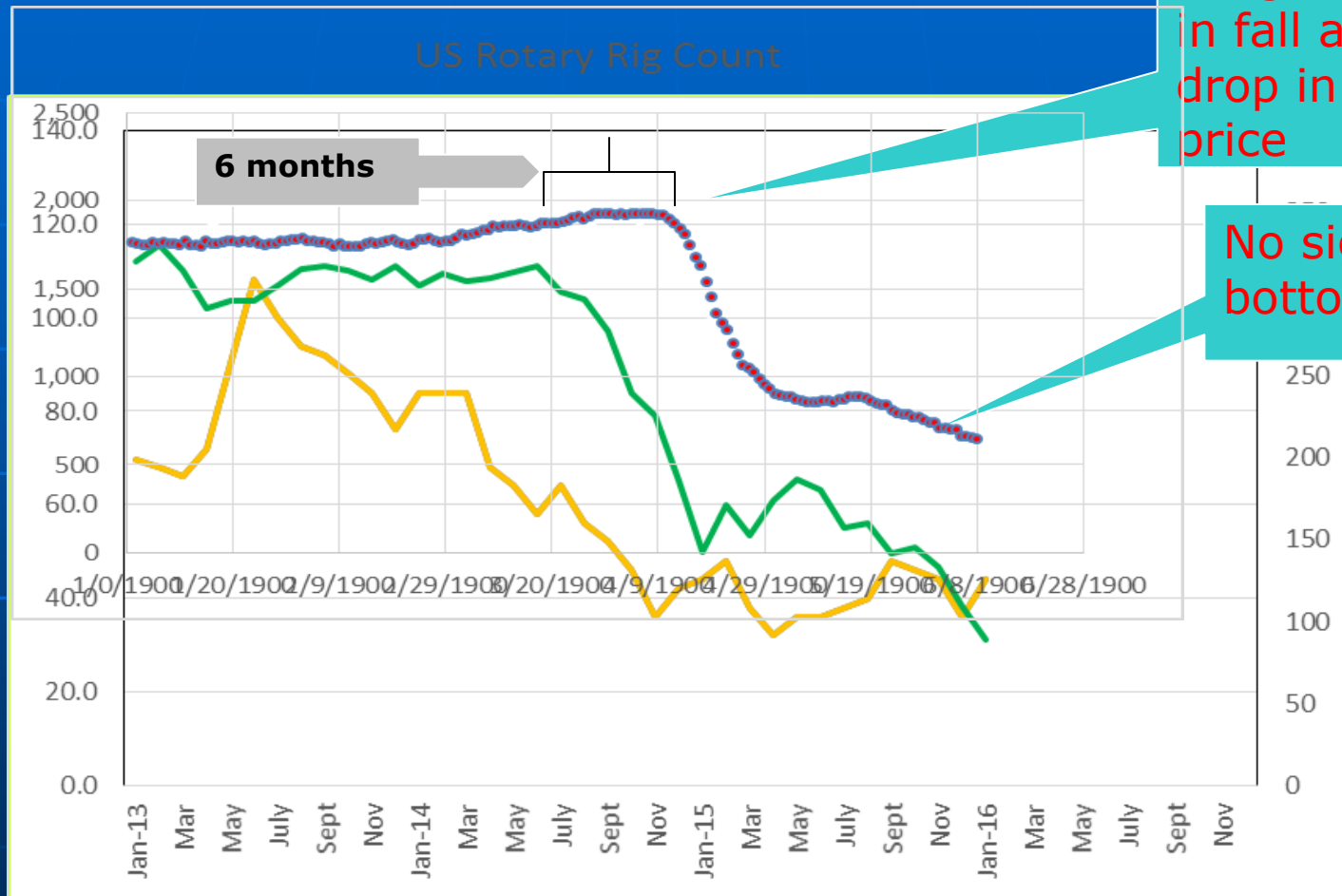
2014-15 Oil Price Comparison



2014-15 Oil Price Comparison



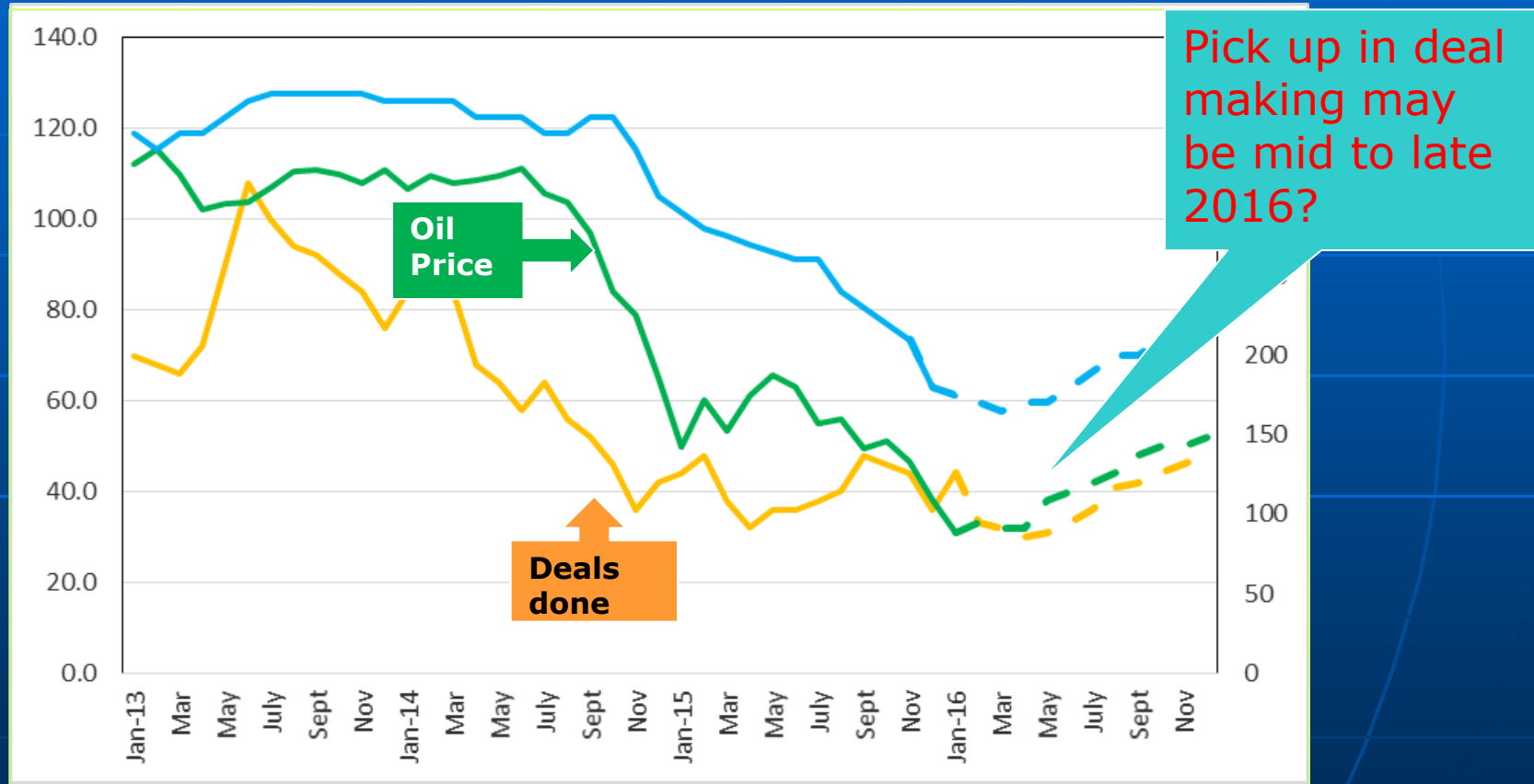
Oil Price Effect vs US Onshore



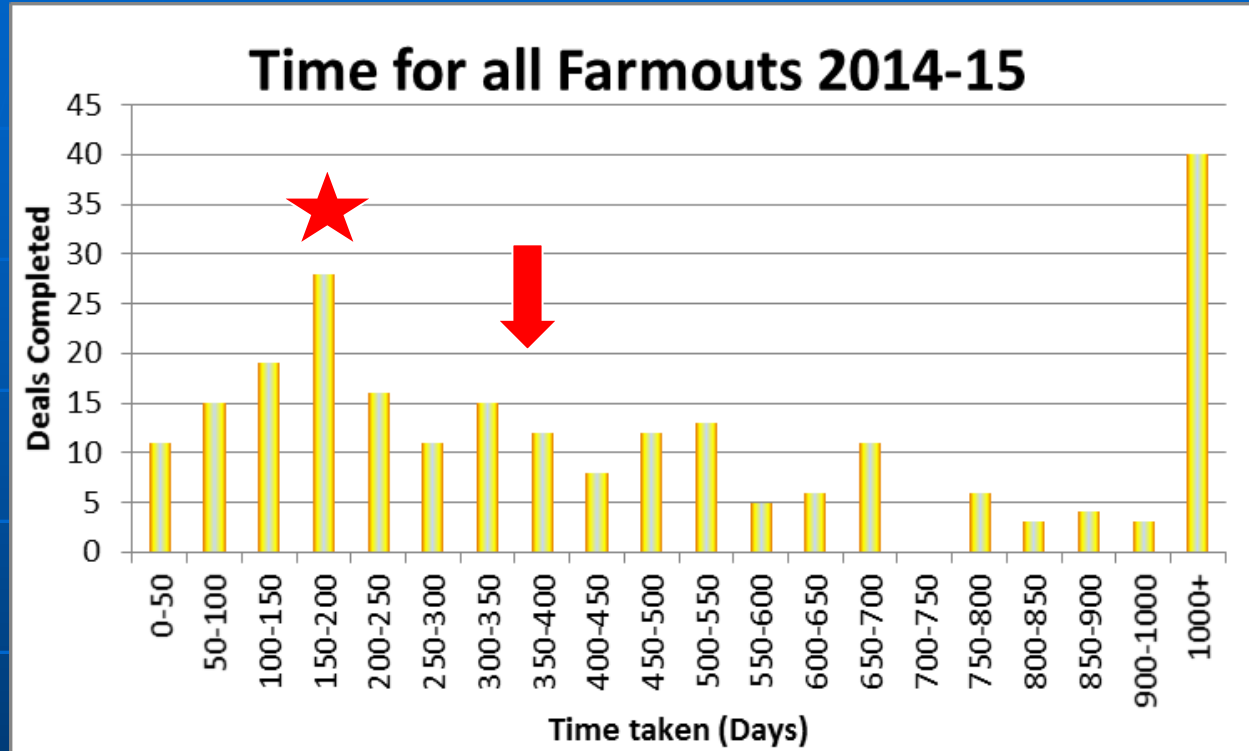
Longer delay
in fall after
drop in oil
price

No sign of the
bottom yet

2014-15 Deal Trend Prediction



Time Taken to Farm Out



- The time taken from a deal coming on the market to the completion of a farm out has a mode of 6 months
- Most deals take up to a year to farm out
- **If the oil price is to rise in 2017 NOW is the time to be doing business**

Challenge 2

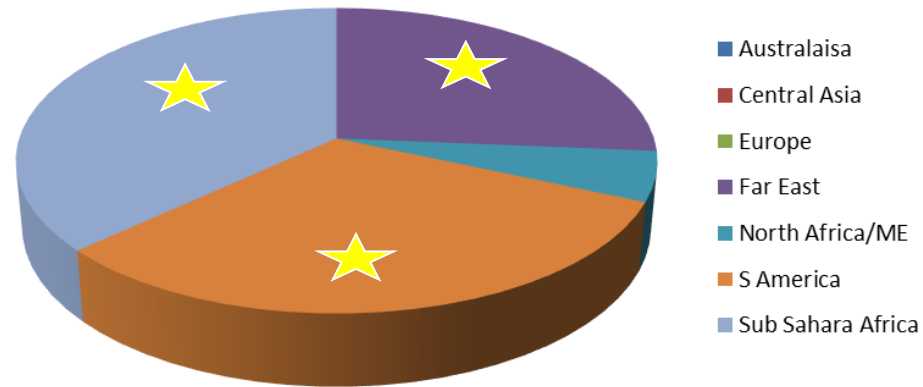
- Where to look
- With oil price uncertainty the obvious places to look are those with low Capex possibilities and low Opex
- Follow the pack or buck the trend?

Where were deals done?

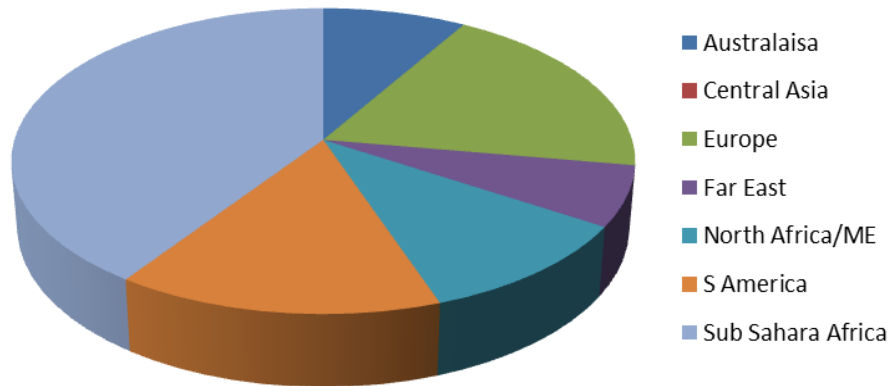
Deep Water deal Distribution

- Companies were focussed on Sub Sahara, S America and the Far East in 2015
- Europe and Australasia are out of favour

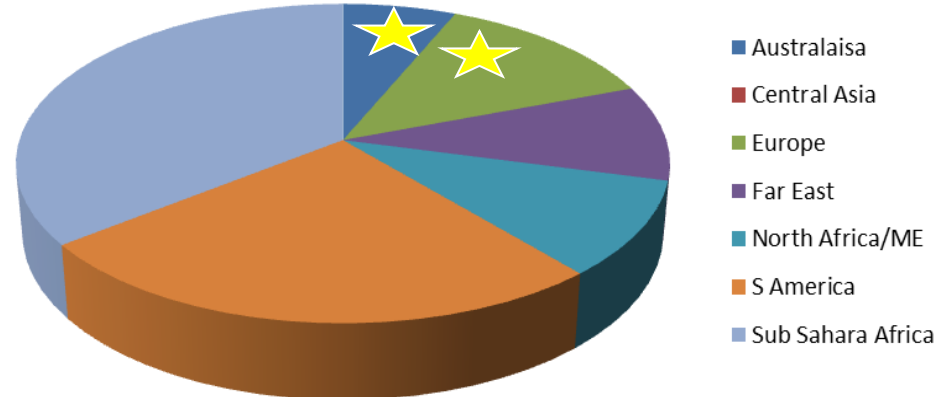
Deals Completed in 2015



Deals Completed in 2013



Deals Completed in 2014

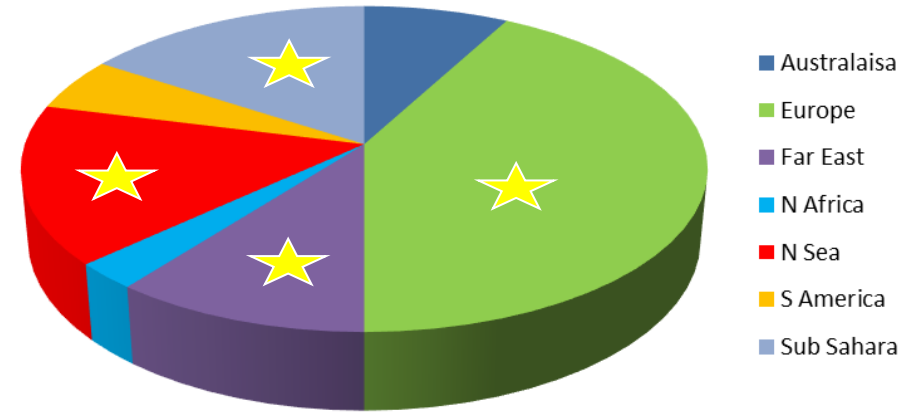


Where were deals done?

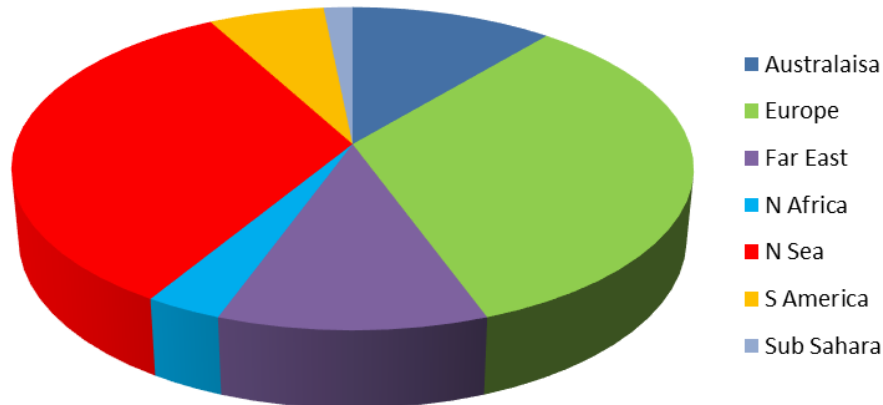
Shallow Water deal Distribution

- Companies were focussed on Europe (mostly Norway) and Sub Sahara in 2015
- The UK North Sea and the Far East were less in favour

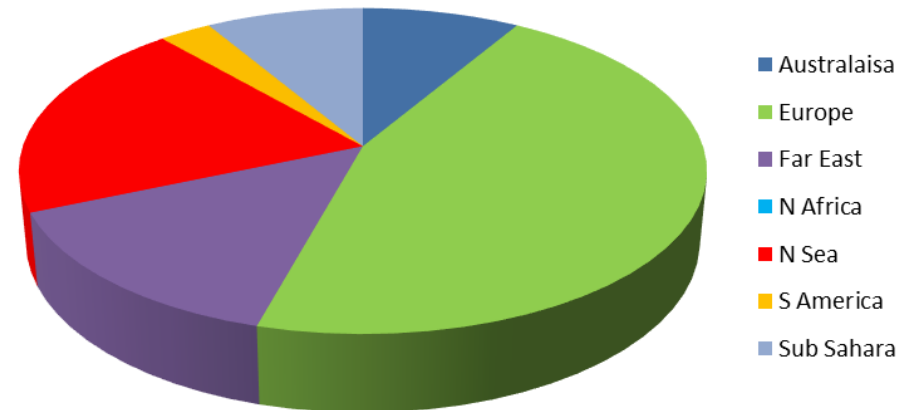
Deals Completed in 2015



Deals Completed in 2013



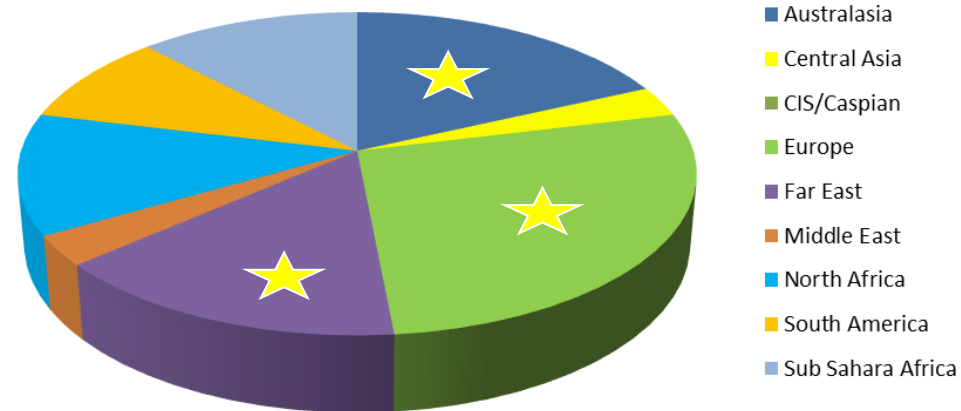
Deals Completed in 2014



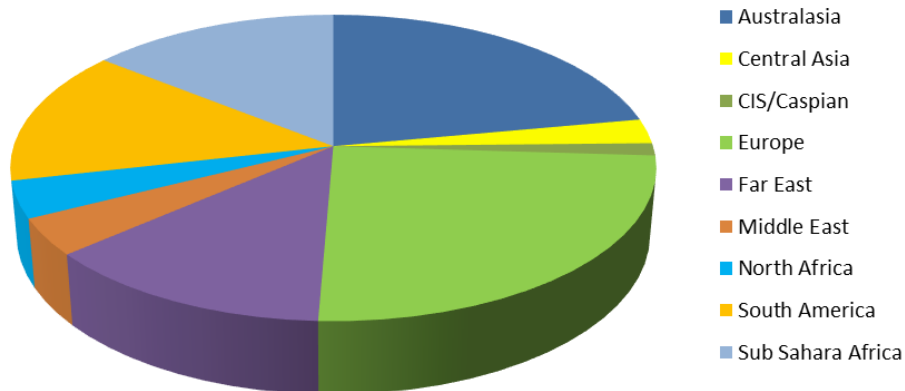
Where were deals done? Onshore deal Distribution

- Australasia, the Far East and Europe were in favour in 2015
- Overall deal making was very low (33 deals)

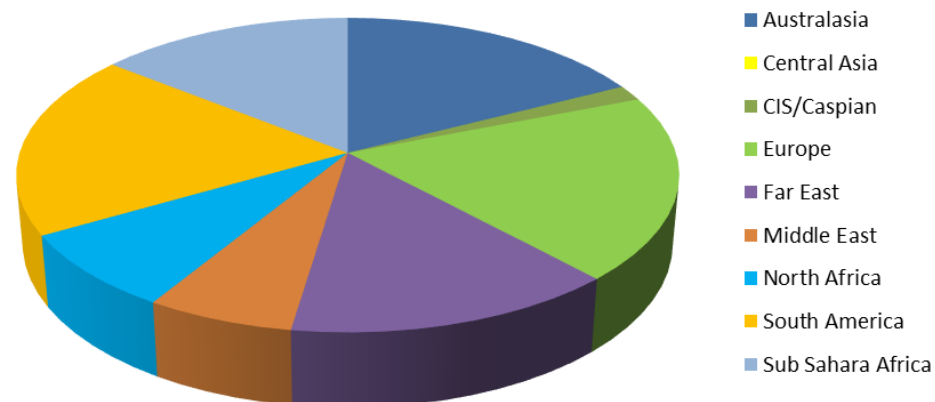
Onshore 2015 Deal Split



Onshore 2013 Deal Split



Onshore 2014 Deal Split



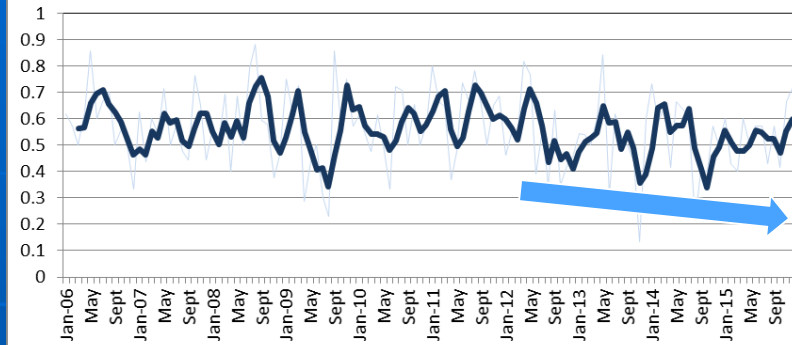
Challenge 3

- Who to farm out to?
- Who is doing deals?
- There is no clear answer

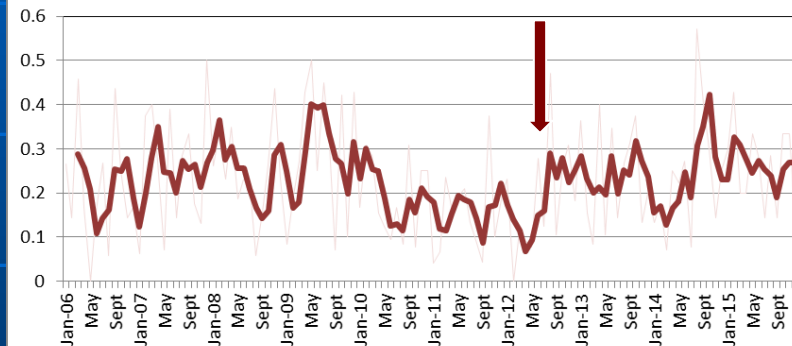
What size of company is farming in?

- Small Cap companies have declined in percentage terms from 65% in 2011 to 55% in 2015
- Mid caps have shown a jump in percentage terms from 10-15% in 2011 to 25% in 2013-15
- Large Caps have shown little change since 2011
- No major change on who is farming in

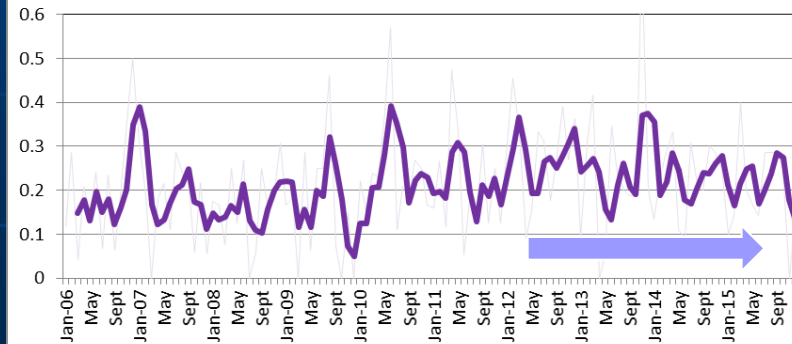
Small Cap % Deals Done



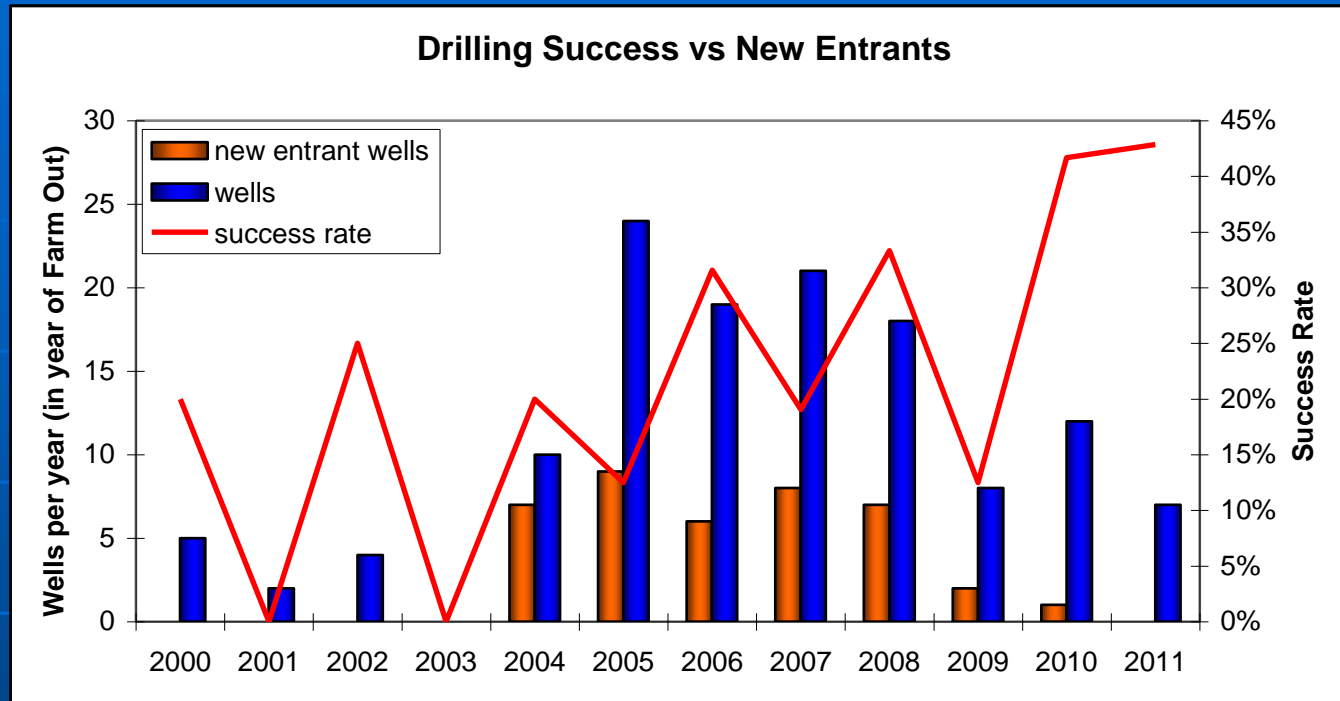
Mid Cap % Deals Done



Large Cap % Deals Done



UKCS New Entrant Farm in Success



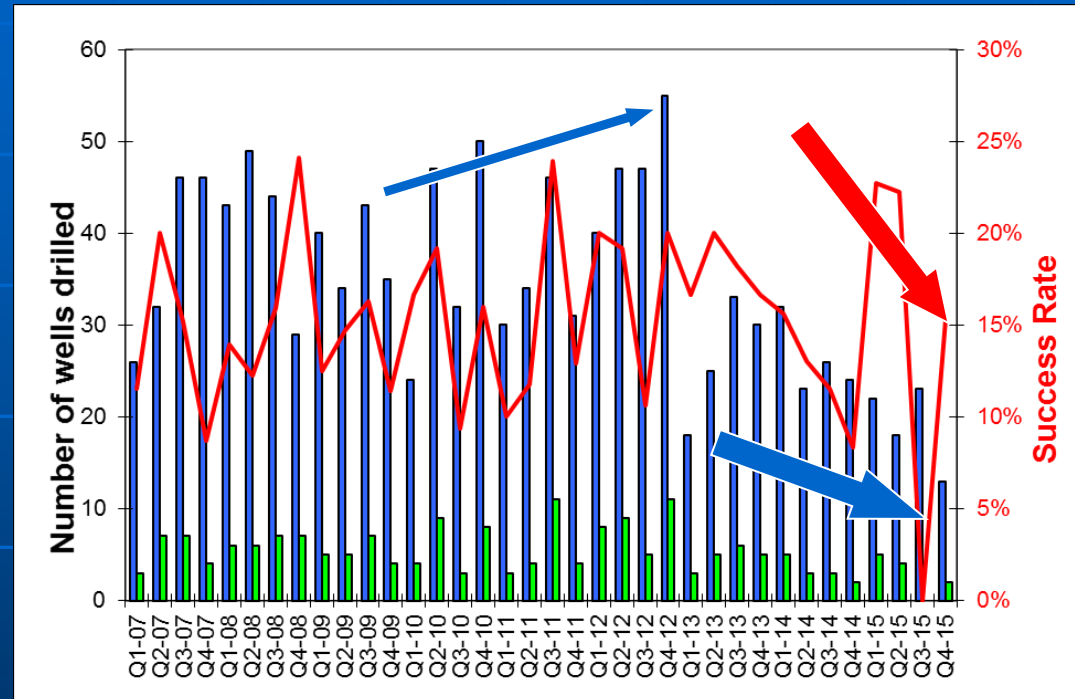
- New entrants have farmed in to 41 wells of which 4 were discoveries (10% success)
- Existing players have farmed in to 90 wells of which 28 were discoveries (31% success)
- Farming out to new entrants is more likely if prospects have high technical risk

Challenge 4

- Is farming in good business

Drilling results 2007-2015

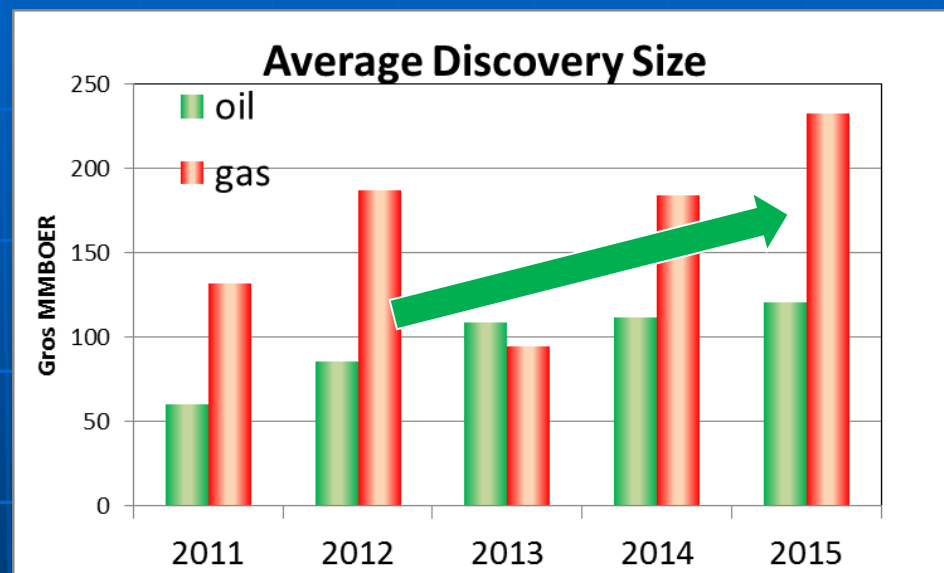
- General increase in drilling activity through 2010-12 then reverse in 2013-15 – down nearly 50%
- Average success rate (red line, right hand scale) was stable in 2012-13 but fell in 2014-15
- Average success Rate is 19 % but 13% in last 2 years



Total wells drilled
Discoveries

Discovery size

- Average oil discovery size rose in 2015 to 121MMBOR
- Average gas discovery size rose in 2014 to 233MMBOER (1400BCFR)
- Sample size for gas discoveries is small (ave 5 per year)



Overall the discovery size has generally risen over 5 years influenced by a few large discoveries each year and fewer onshore wells

Conclusion

- The deal making market is at a low both in volume and value
- Now is the best time to start the farm in/out process while costs are low
- Farm in drilling results are OK on average

This Year's Predictions

■ *Assuming some oil price recovery*

- Farm in activity will increase
 - Drilling activity will decrease
 - Discovery sizes will fall
 - Drilling success rate will rise
 - Unconventional deal making will stay low
-
- *There may be good surprises in 2016*
(the optimistic view!)