

ACCESSING FUNDING FOR E&P GROWTH

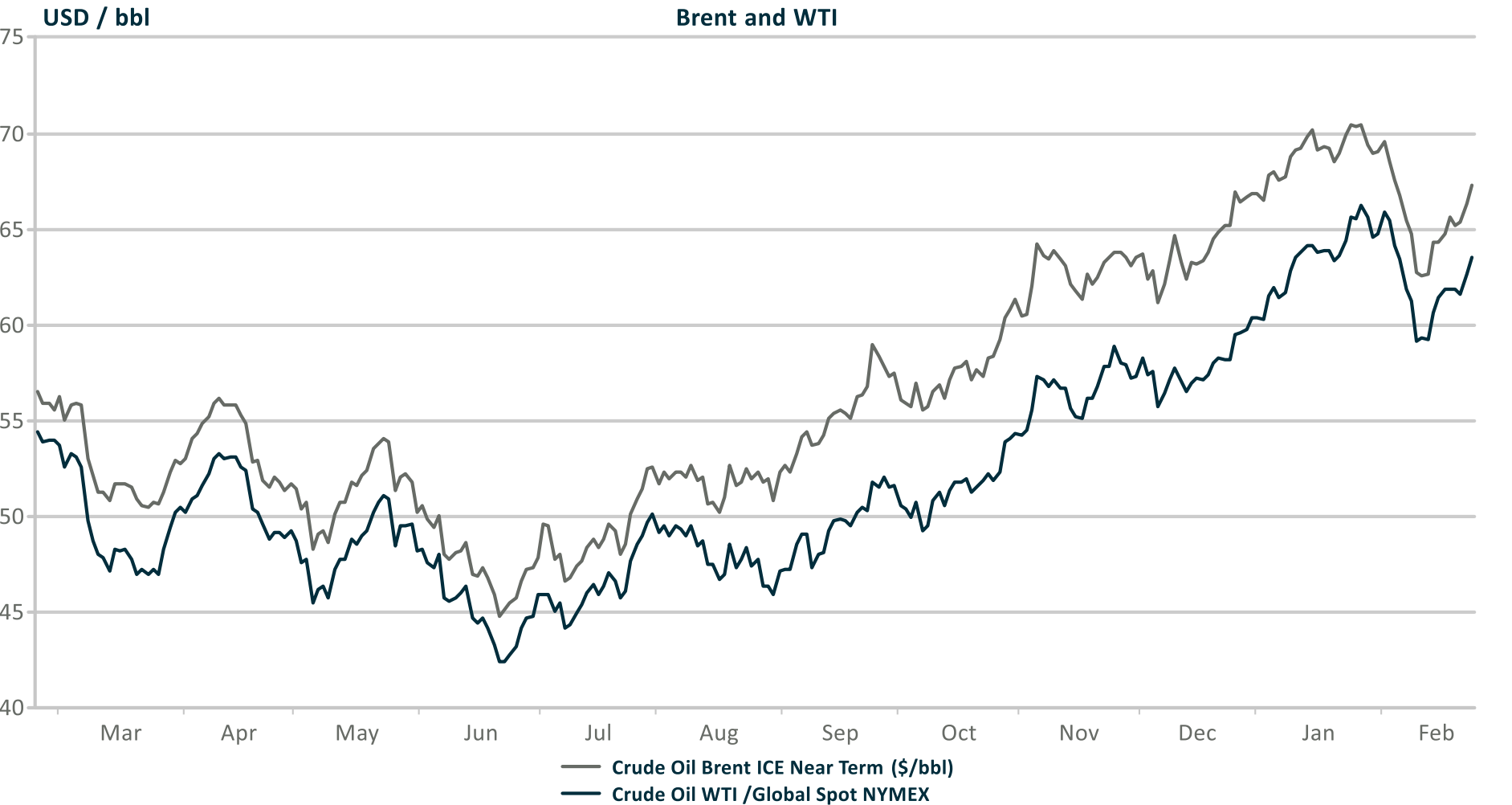
JONATHAN WRIGHT, DIRECTOR
GMP FIRSTENERGY

28 February 2018



WHAT'S CHANGED IN 12 MONTHS?

Period of stability leading to improved investor confidence

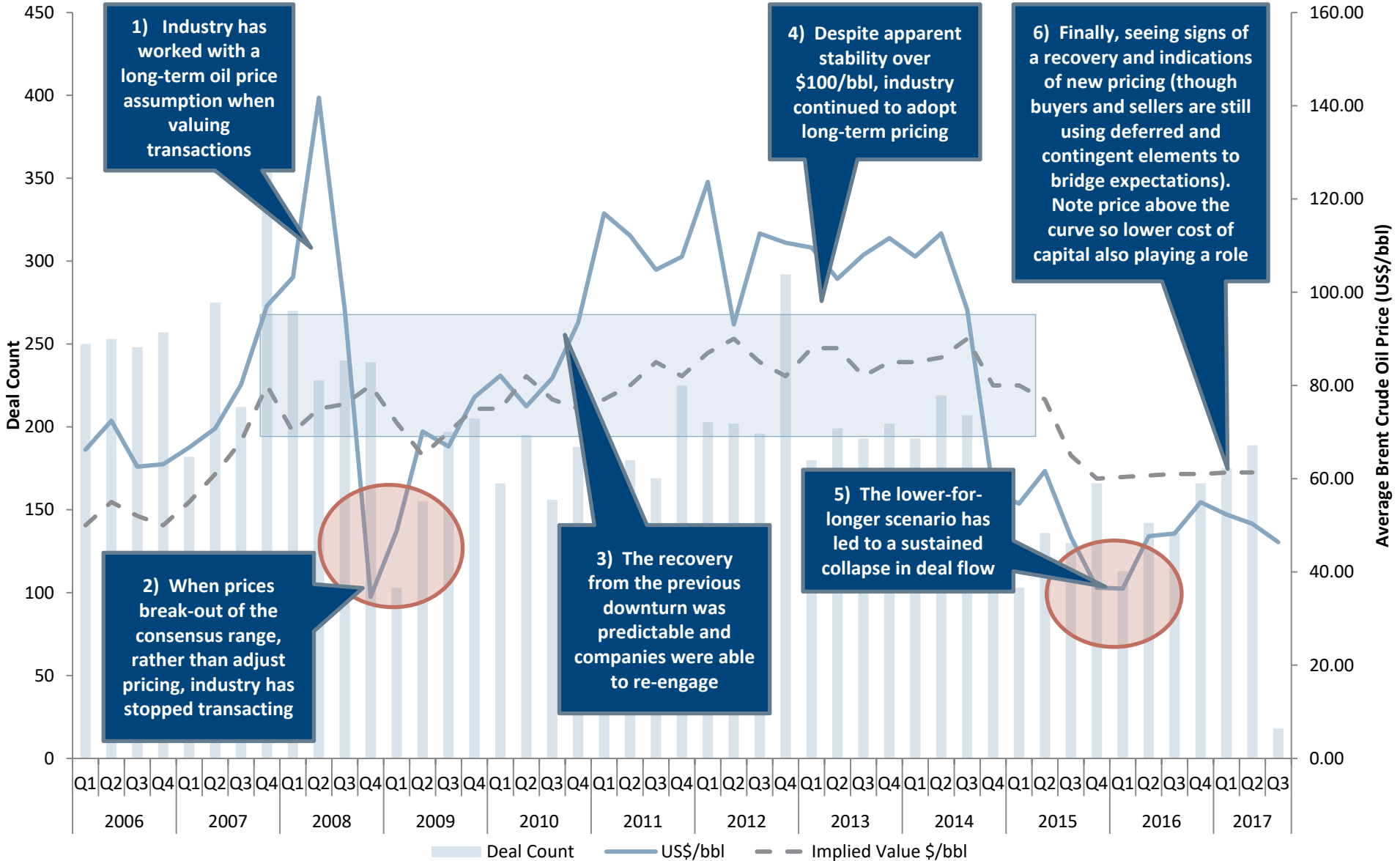


Source: FactSet Prices

GLOBAL TRANSACTION MARKET

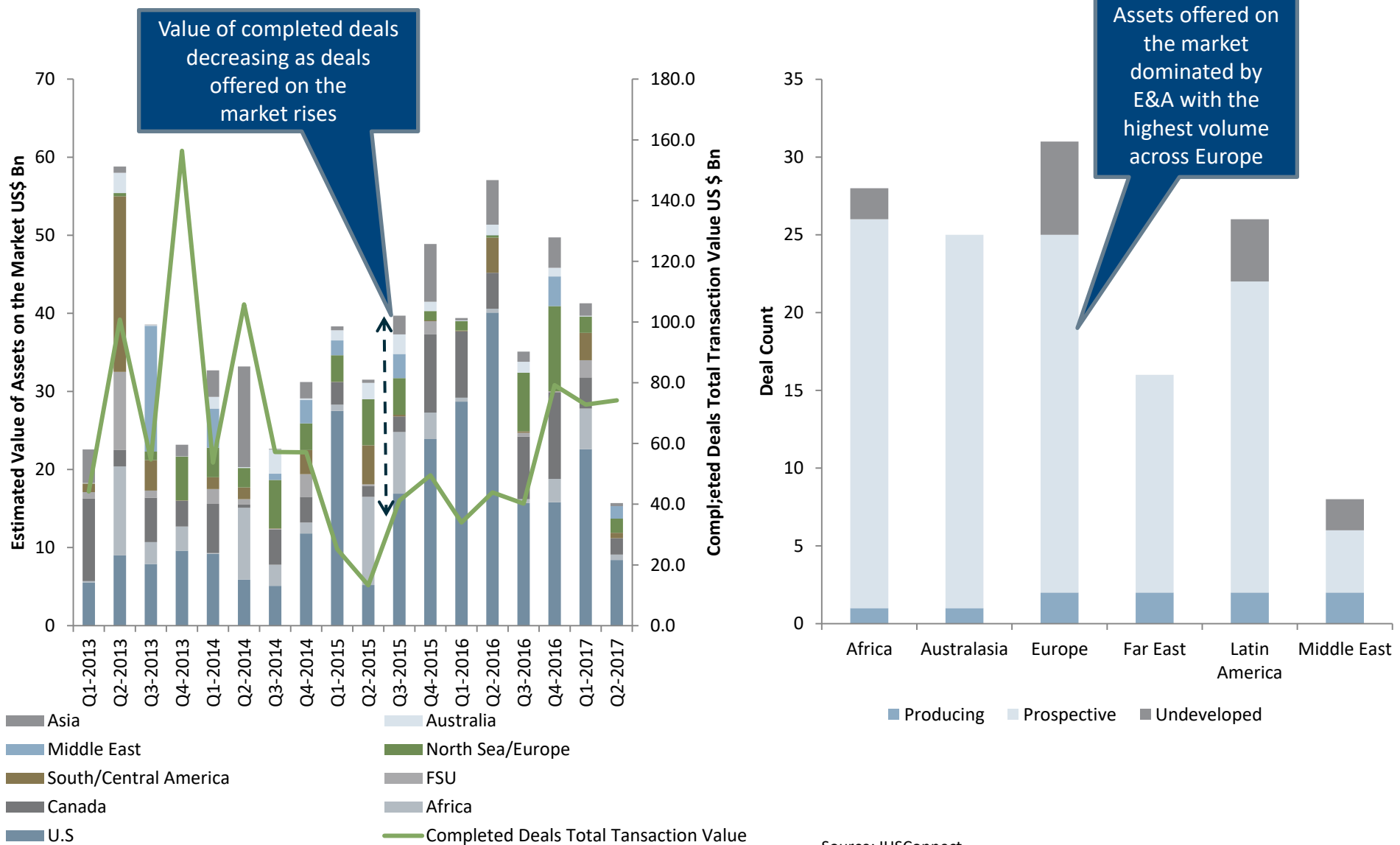
IMPACT OF INDUSTRY PRICING ON DEAL FLOW

Brent oil price vs. Implied long-term oil price (\$/bbl) vs. deal count



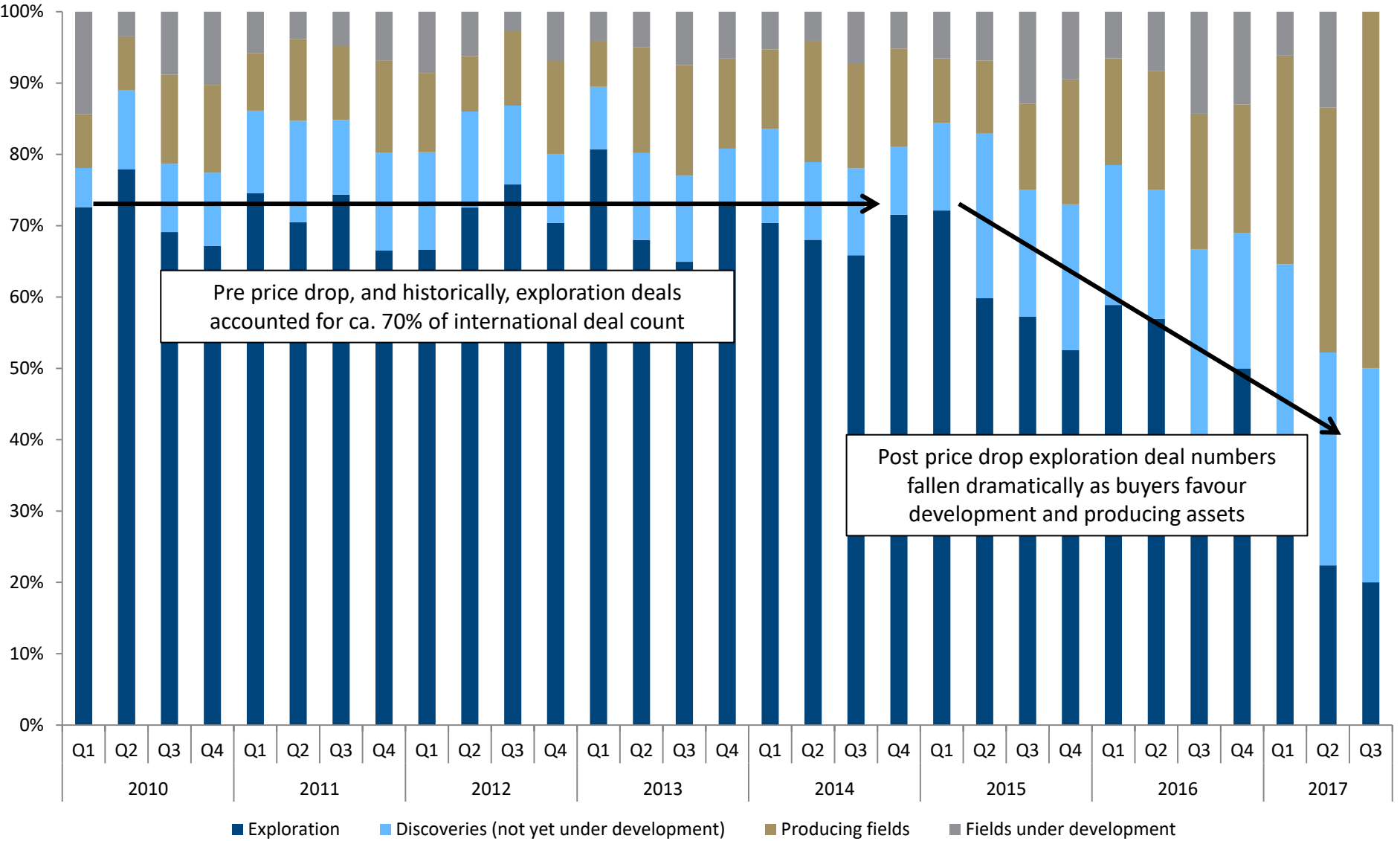
Source: GMP FirstEnergy, WoodMac, 1Derrick, IHS

Oversupply of exploration and appraisal assets on the market, predominantly located in Europe



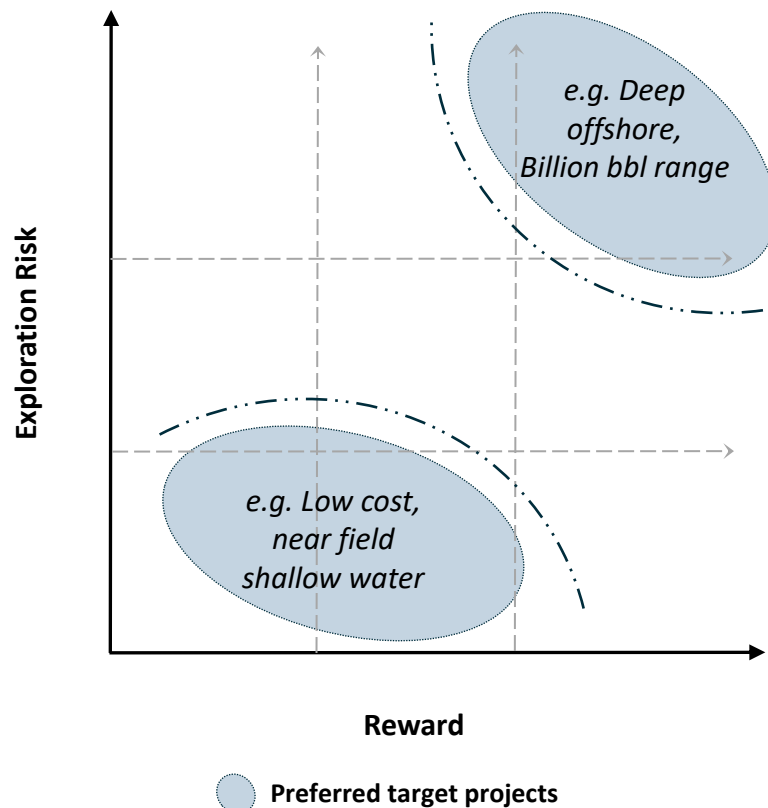
EXPLORATION DEAL COUNT REDUCED

International Deal Count by Transaction Type



Source: IHS, excl North America

Successful transaction criteria for exploration in the current climate

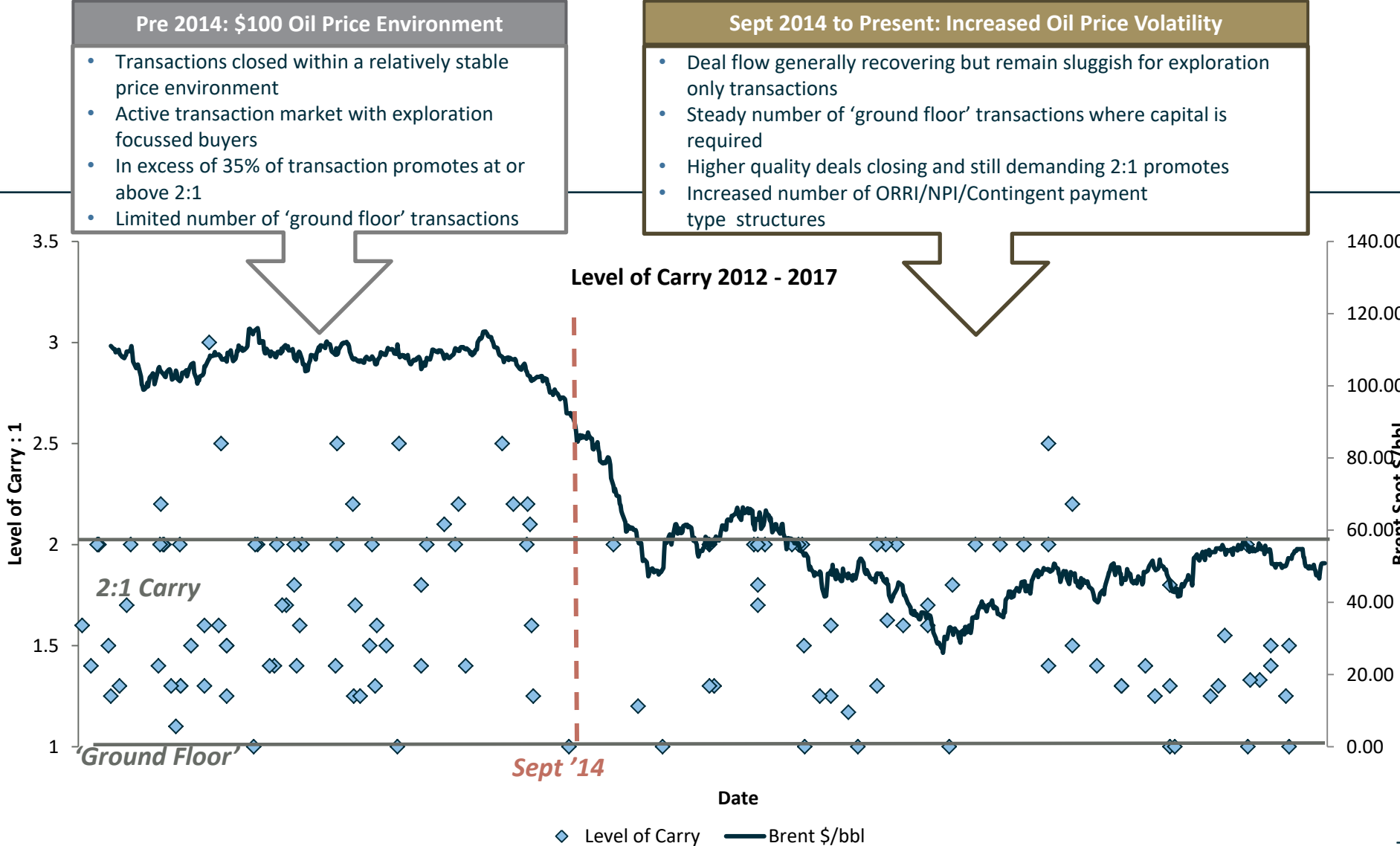


- Deferred drilling (no commitment in the next 12 months)
- High working interest available to attract full universe of buyers
- Low cost onshore/shallow or billion barrel scale
- Analogous plays
- Calibre of partnership
- Running room – multiple plays and/or repeatability

Given current market conditions and 'buyers market', preferred transactions tend to fit restricted criteria set (when compared to historic market)

RECENT FARM-OUT TRANSACTIONS

The below presents the level of carry achieved for each transaction across the period January 2013-2017. Whilst the trend post the downturn has been downward, deals have held up reasonably well suggesting only high quality deals are close, the scarcity of which is leading to premium valuations.



Change in proposed asset deal structures in today’s low oil price environment

Production/Development Transactions

Buyers seeking to mitigate risk exposure by increasingly structuring deal considerations to include:

- Oil price kickers, with additional payments made if oil price reaches specified level.
- A greater contingent/deferred element based on set milestones.
- More ‘exotic’ financial type structures proposed, including ‘royalties’ and ‘revenue streaming’.
- Buyers seeking to avoid decommissioning liabilities through vendor retention mechanisms.

Examples



Exploration Transactions

Given the increasingly saturated market place, buyers are becoming increasingly opportunistic and seeking to take advantage of perceived lack of access to capital markets.

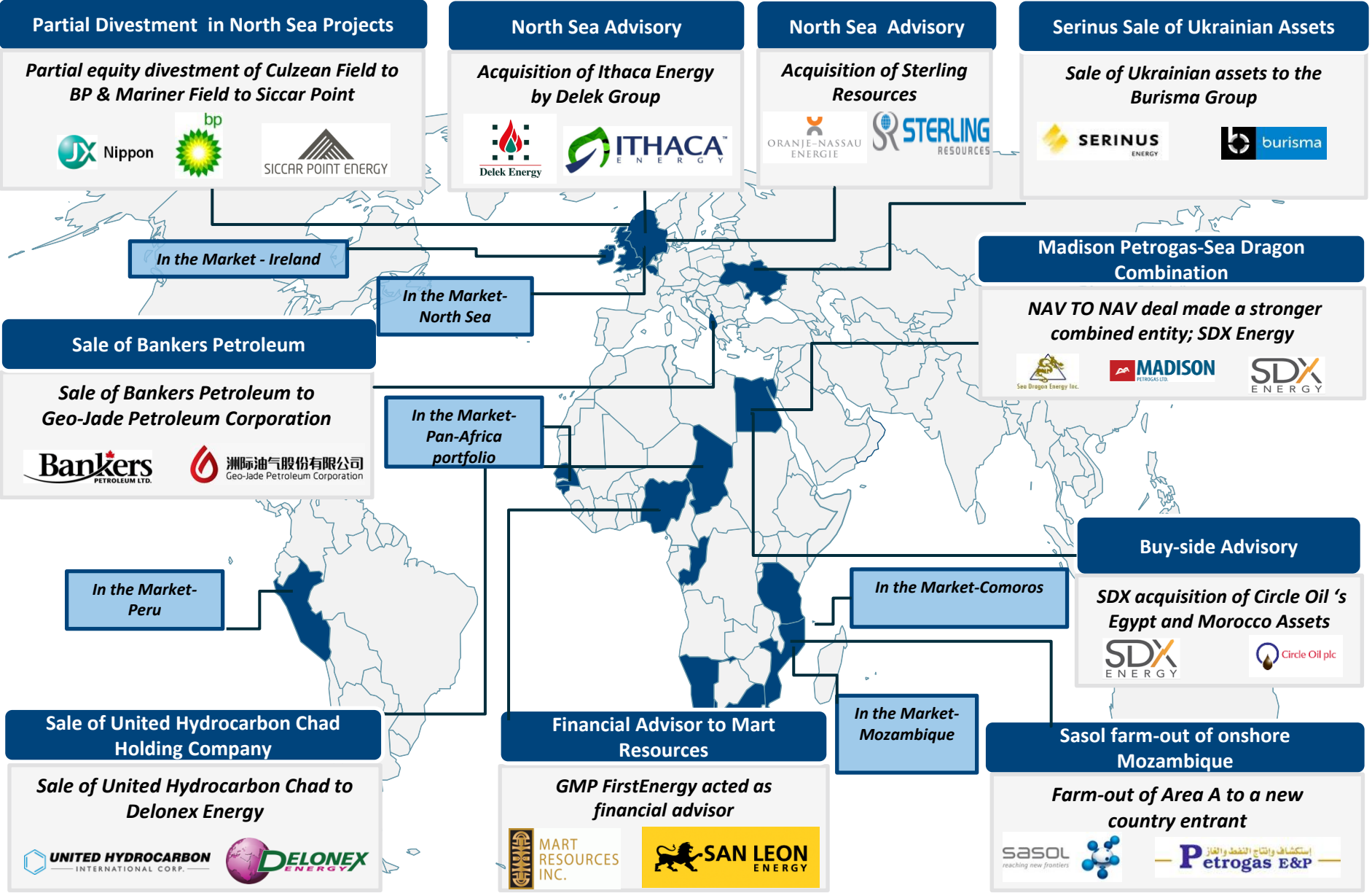
- Proposed farm in deals shifting towards ‘ground floor’ type transactions.
- Buyers seeking greater flexibility in transaction structure on a phased work programme basis (i.e. seismic, stay and commit or exit).
- Higher quality and/or scarce opportunities however, continue to deliver promotes.
- Risk mitigation and diversification via asset swaps.

Examples



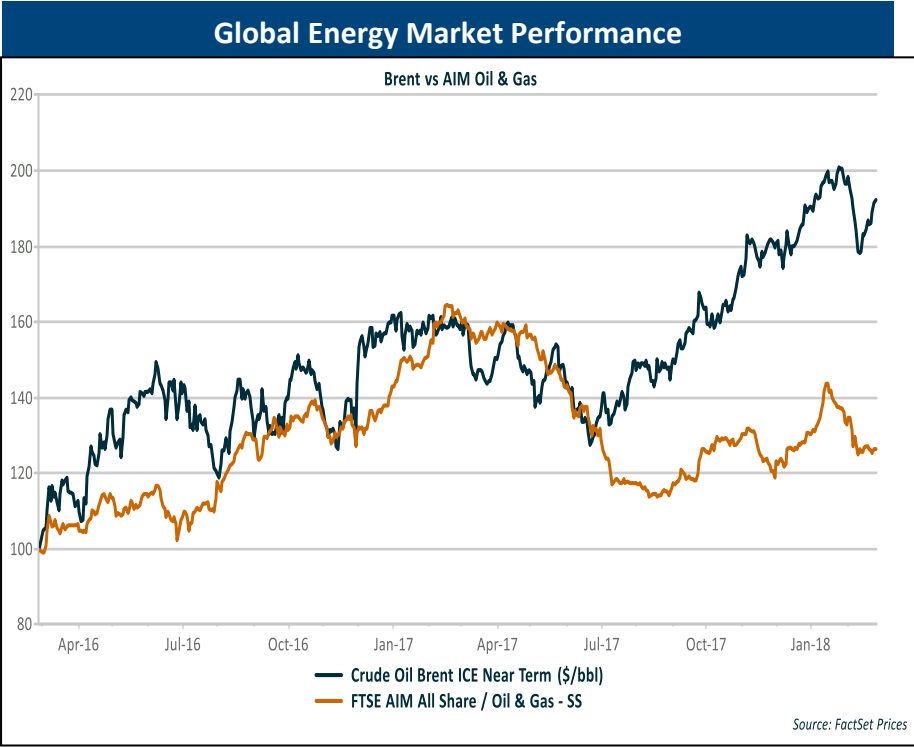
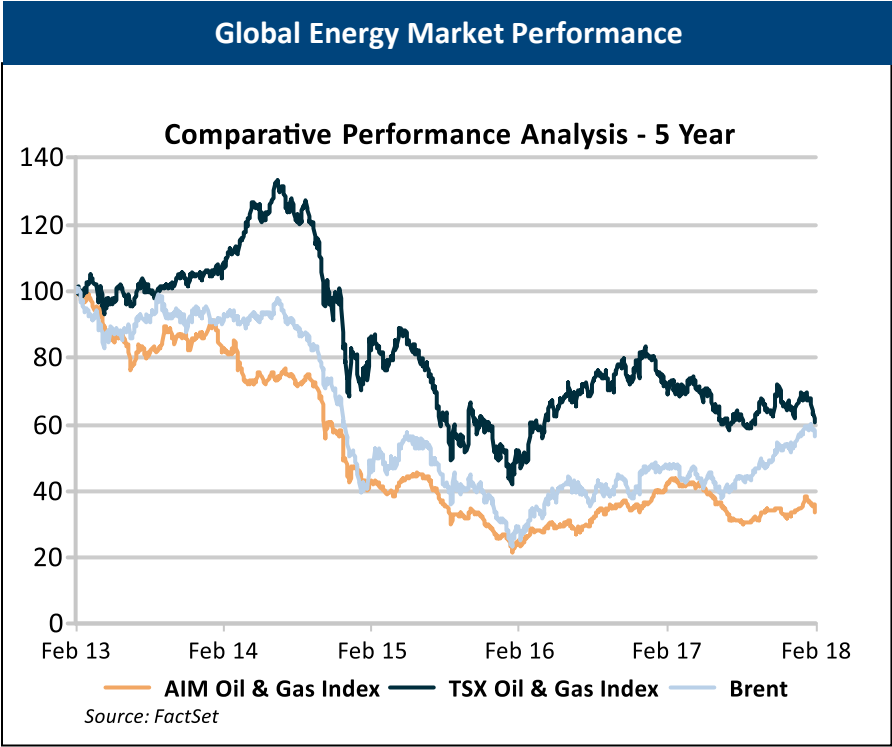
GMP FIRSTENERGY: LONDON DEAL ACTIVITY 2016 –2017

GMP FirstEnergy has been active and successful on multiple advisory mandates despite the challenging market

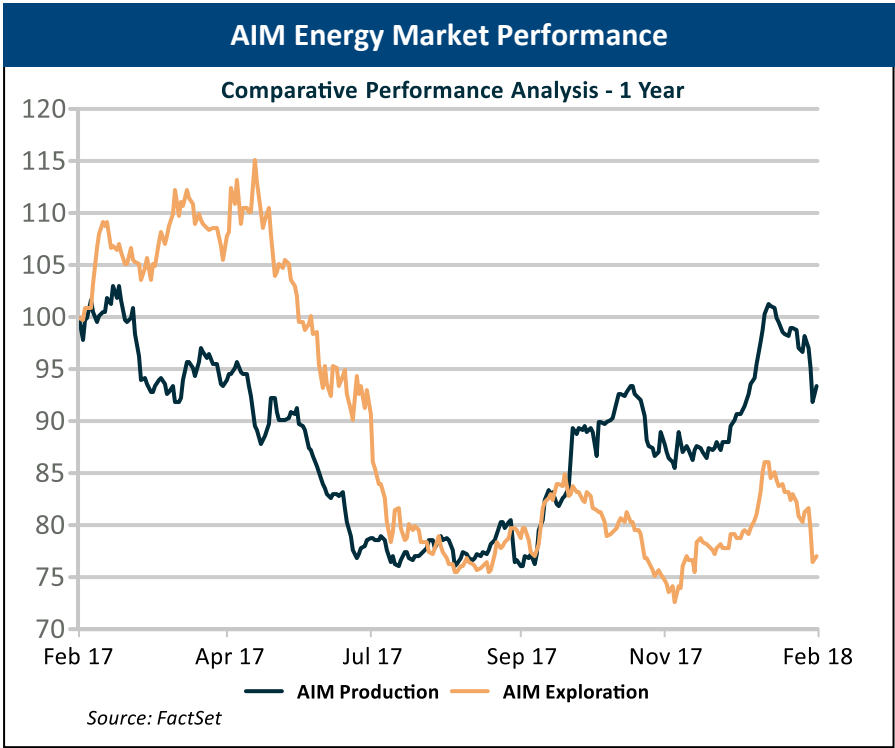
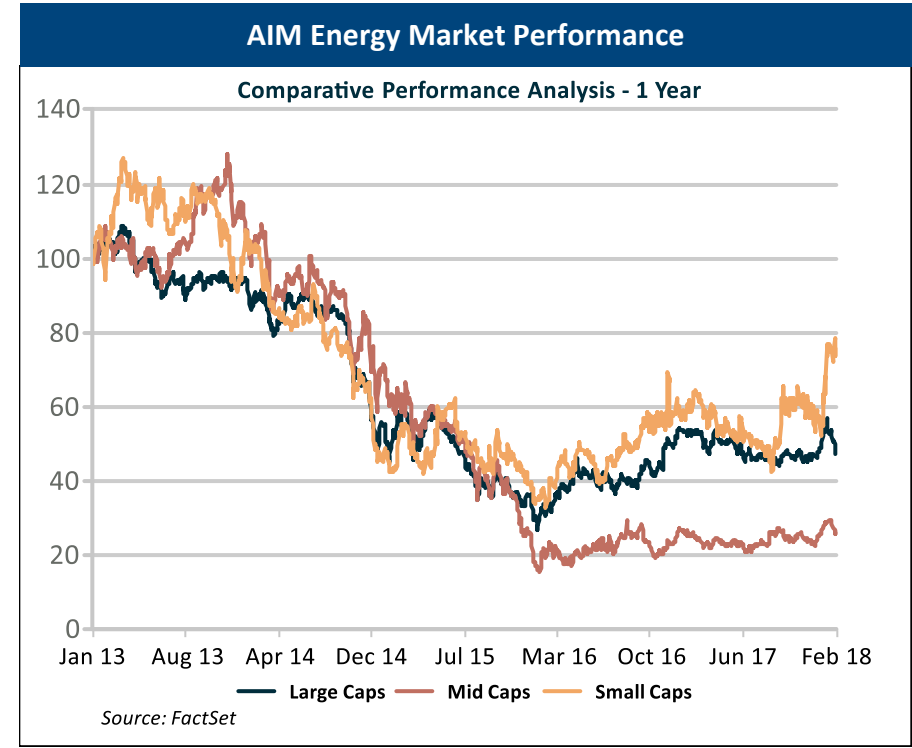


EQUITY MARKET

Energy Market Performance

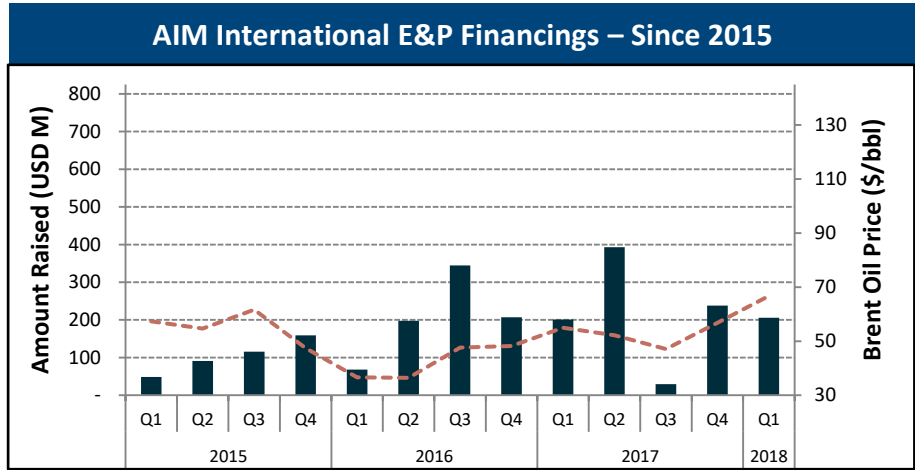


London Energy Market Performance

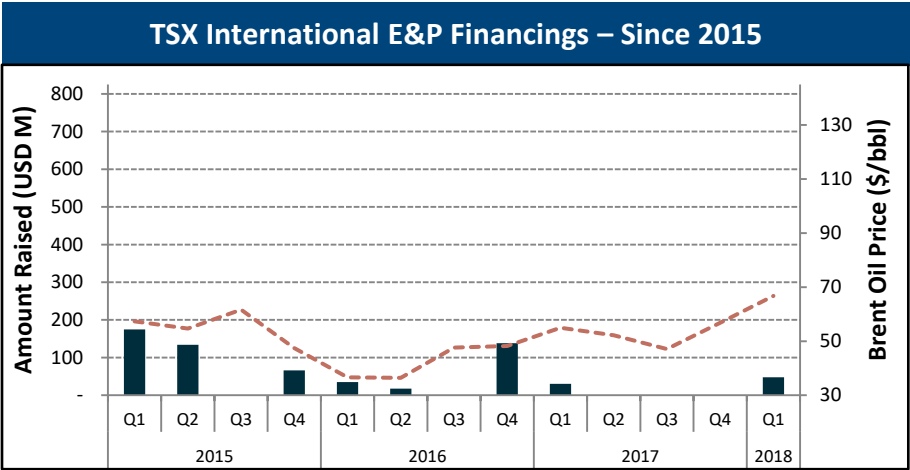


- Generalist long only funds remain underweight or have little exposure to resource sector.
- As commodity prices start to show a period of reduced volatility and stability, asset allocators will need to start committing to energy stocks in a meaningful way.

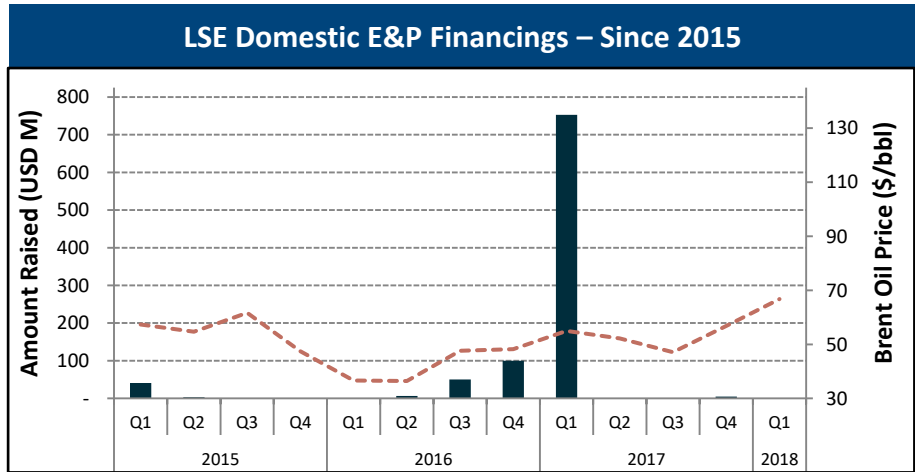
Levels of Issuance – Equity financings



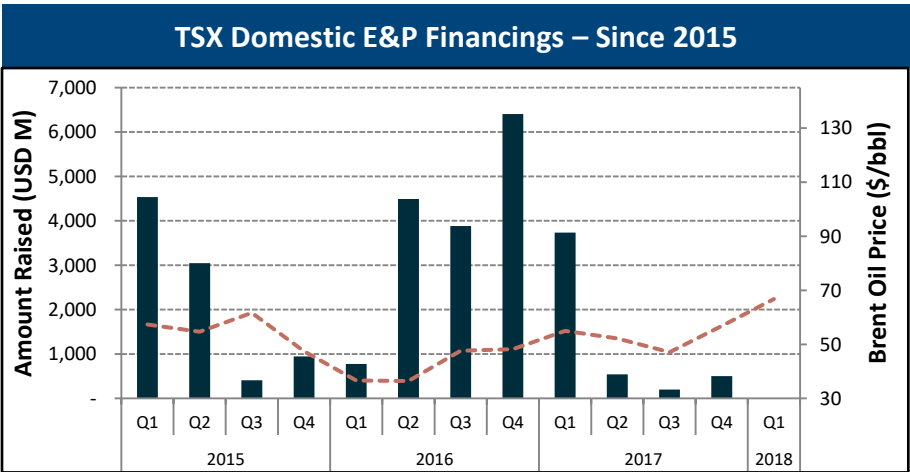
Source: GMP FirstEnergy



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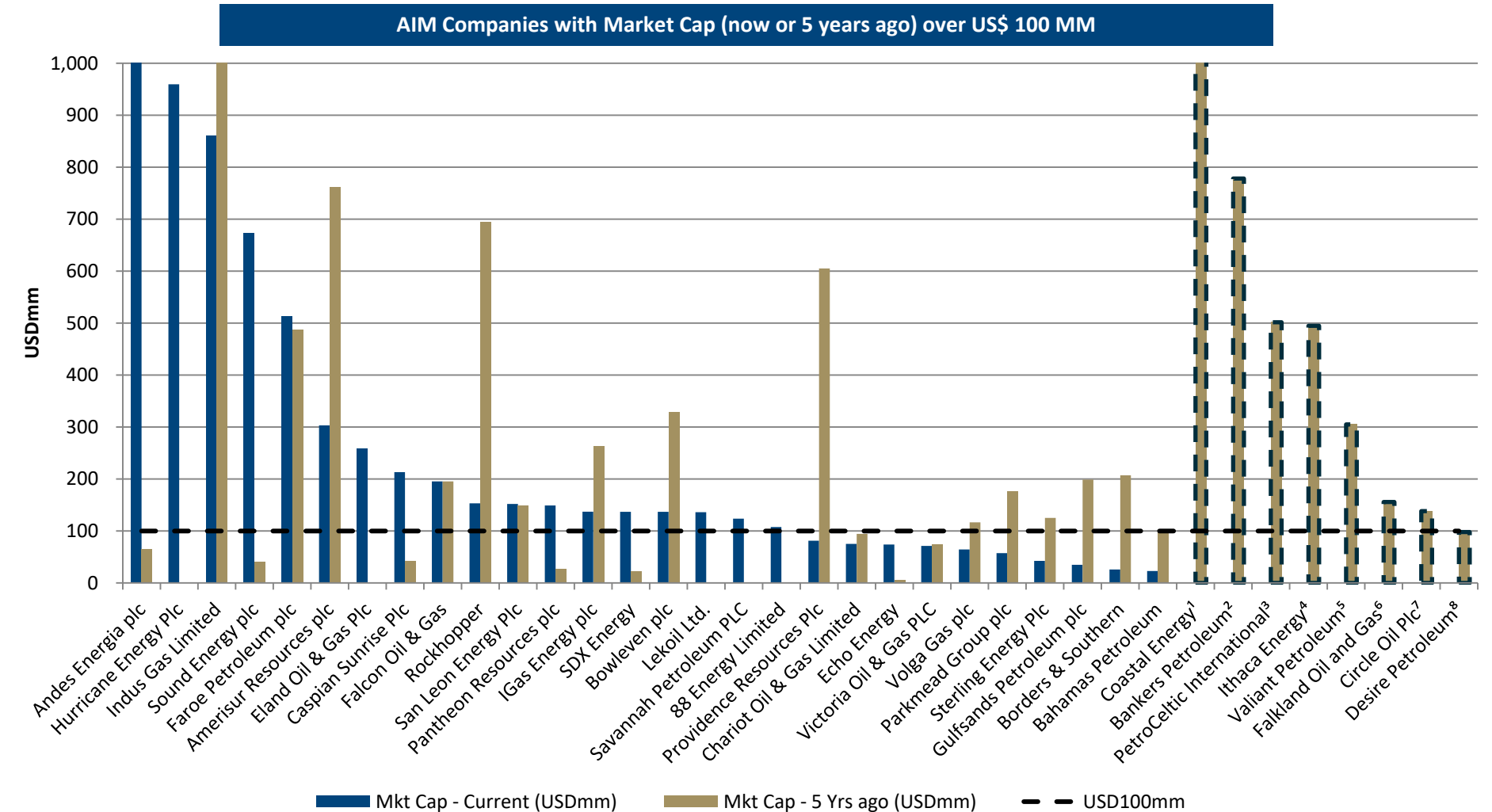


Source: GMP FirstEnergy



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- AIM & LSE have experienced significantly higher levels of financing, relative to the TSX for companies with international assets.
- Those investors allocating capital in the E&P sector are seeking low risk production / near production plays with cash flows to provide stability and attractive upside.



Bordered values indicate companies that have been taken over or delisted

- 1. Taken over by CEPSA in November 2013
- 2. Taken over by Geo-Jade Petroleum in March 2016
- 3. Delisted after going into administration in October 2014
- 4. Taken over by Delek Group Ltd in June 2017
- 5. Taken over by Ithaca Energy in March 2013
- 6. Taken over by Rockhopper Exploration in November 2015
- 7. Delisted after going into administration in December 2016
- 8. Taken over by Falklands Oil and Gas (now Rockhopper Exploration) in October 2013

Positive signs of investor appetite returning



Jun 2017 - \$300mm fundraising



Dec 2017 - \$125mm equity raise



February 2018 - \$35mm equity raise



DIVERSIFIED GAS & OIL
P L C

Jan 2018 - \$189mm placing



Feb 2018 - C\$60mm bought deal



Intention to IPO - \$500mm

Continued recovery in both the transaction market and the equity capital markets. Participants accept the 'lower for longer' thesis and the market has re-set however players do not accept 'lower for ever' and some renewed confidence has emerged.

M, A & D

- Stability returning to transaction markets.
 - Evidence of convergence of buyer-seller price expectation.
 - Fewer deals now requiring bridging mechanisms.
- Still a 'buyers market' but conditions for sellers is vastly improved and probably the best since the commodity price downturn.
- Evidence for deal appetite increasing.
 - More willing and able buyers.
- Higher quality assets on the market.
- Private Equity has made significant moves outside North America targeting North Sea in particular but also Africa.
- Appetite of Asian-buyers continues to recover from lows of 2015.

Financing

- Markets remain fickle and equity markets have opened and closed through 2017.
- Current market is more positive than previous years.
- Investors with underweight sector positions now seeking low risk opportunities.
- Interest will however feed back in through the risk profile such that production and development projects secure funding ahead of pure exploration plays.

The Transaction and Equity Capital Markets are recovering from 2015 lows.

Questions?



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