Market Update: Tuesday 29 September 2020

Cairn Energy (CNE LN): Interim results, FY 2020 production guidance narrowed to 21,000-23,000bopd
Echo Energy (ECHO LN): Initial assessment of the Monte Aymond gas project confirms commercial viability
Jersey Oil & Gas (JOG LN): Interim results, JOG continues to finalise development plan for GBA

Energy Prices

Brent Oil US$42.2/bbl vs US$41.7/bbl yesterday
WTI Oil US$40.3/bbl vs US$40.0/bbl yesterday
Natural Gas US$2.08/mmbtu vs US$2.22/mmbtu yesterday

Oil Price News

- Adding further pressure to global supply, crude oil production in Libya jumped nearly threefold from below 100,000bopd last week to 250,000bopd today - a week after the blockade on Libya’s oil ports was lifted
- While the restart of Libya’s oil industry and exports are welcome news for the country, which has lost in excess of US$10bn in oil revenues due to the blockade, the increased supply from the African OPEC member is weighing on oil prices amid a faltering global oil demand recovery
- As of Monday, Libya’s oil terminals at Hariga, Brega, and Zueitina are open for business and welcoming tankers to ship oil, although the biggest port and the terminal typically exporting the oil from the biggest oilfield in the country are still under force majeure
- The oilfields that supply the crude for the Hariga, Brega, and Zueitina oil terminals are now producing 150,000bopd more than they did before the blockade was lifted
- Tankers are arriving to those three oil ports to load oil and they will make room for more oil from the fields feeding the three terminals
- The oilfields are set to further boost their production, as the country’s oil minister announced that “significant improvement in the security situation that allows the National Oil Corporation (NOC) to resume production and exports to global markets.”

Gas Price News

- The highly volatile US natural gas benchmark prices are set to trend higher in the coming months amid lower domestic production, higher demand in the winter, and recovering global gas prices in Europe and Asia—America’s key export destinations for LNG
- The coming winter season and the end of the hurricane season that has disrupted LNG operations and exports along the US Gulf Coast, coupled with recovering gas demand for industrial activities in Asia and Europe, are likely to send natural gas prices to above US$3/mmbtu in the winter months, the natural gas futures curve and EIA estimates show
- The impending winter heating season, however, is about to change the fundamentals
- Demand is expected to rise with the fall in temperatures in the northern hemisphere, supporting US and global natural gas prices
- Higher prices at the key European and Asian hubs will make LNG exports to those destinations viable and profitable again
- This week’s volatile natural gas prices were indicative of a demand/supply picture in a ‘shoulder season’ when power demand for air conditioning begins to wane, but demand for heating is not there yet
- So prices reacted to the immediate drivers—storage, feed supply for LNG, and storm-induced shut-ins

Please, see disclaimer at the of this document
Yesterday’s Risers and Fallers

<table>
<thead>
<tr>
<th>Top 10 Risers</th>
<th>Top 10 Fallers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance Energy PLC 24.5%</td>
<td>Rockhopper Exploration PLC -14.6%</td>
</tr>
<tr>
<td>Petro Matad Ltd 18.4%</td>
<td>Sound Energy PLC -9.1%</td>
</tr>
<tr>
<td>Eco Atlantic Oil &amp; Gas 15.9%</td>
<td>Angus Energy -8.3%</td>
</tr>
<tr>
<td>Landsdowne Oil &amp; Gas 12.0%</td>
<td>IGas Energy PLC -5.5%</td>
</tr>
<tr>
<td>Bahamas Petroleum Co PLC11.5%</td>
<td>Caspian Sunrise PLC -5.0%</td>
</tr>
<tr>
<td>Mosman Oil &amp; Gas Ltd 8.8%</td>
<td>President Energy PLC -4.7%</td>
</tr>
<tr>
<td>Savannah Energy PLC 8.3%</td>
<td>Pantheon Resources PLC -4.5%</td>
</tr>
<tr>
<td>Union Jack Oil PLC 6.6%</td>
<td>Jersey Oil &amp; Gas PLC -3.8%</td>
</tr>
<tr>
<td>Serica Energy PLC 6.4%</td>
<td>Veriditek PLC -3.4%</td>
</tr>
<tr>
<td>Hurricane Energy PLC 4.7%</td>
<td>San Leon Energy -3.3%</td>
</tr>
</tbody>
</table>

Company News

Cairn Energy (CNE LN): Interim results, FY 2020 production guidance narrowed to 21,000-23,000bopd
Share price: 139p, Market Cap: £815m

- Cairn’s HY 2020 interim results show revenues of US$172.1m (HY 2019 US$257.1m; FY 2019: US$504.2m), before adjusting for hedging gains of US$33.7m (HY 2019: US$2.9m; FY 2019: US$10.9m).
- The fall in revenue reflects the reduction in the oil price during the period due to global oversupply combined with demand destruction resulting from the global COVID-19 pandemic.
- Oil sales realised US$40.21/bbl against an average Brent price of US$42.22/bbl for the period, before hedging gains of US$7.91/bbl.
- Release of deferred revenue in the period was US$8.9m (HY 2019: US$9.7m; FY 2019: US$17.2m) and FlowStream’s share of Kraken oil production has reduced from 4.5% to 1.35%.
- Royalty income in Mongolia was US$0.2m (HY 2019: US$0.6m; FY 2019 US$1.1m).
- Total revenue combining sales, hedging gains, release of deferred revenue and royalty income was therefore US$214.9m (HY 2019: US$270.3m; FY 2019: US$533.4m).
- Cairn had cash balances of US$84.1m at 30 June 2020, representing a net cash outflow of US$62.4m over the period. No debt was drawn under the Company’s RBL bank facility during the period.
- Cairn completed the sale of the entire share capital of Capricorn Norge AS to Sval Energi in February 2020.
- The consideration received of US$105.2m was offset by transaction costs and cash transferred US$2.7m.
- The majority of the cash outflows on exploration expenditure of US$103.4m in the period relate to Mexico where US$80.8m was incurred on the two exploration wells completed in the period (US$25m related to activity in 2019).
- Elsewhere, US$10.5m related to the Mauritania farm-in while the remaining US$12.1m was primarily incurred in Côte D’Ivoire prior to operations being suspended due to a COVID-19 related force majeure event.
- Development cash outflows in Senegal relate to expenditure on the FPSO and sub-surface infrastructure.
- On Kraken, cash expenditure of US$10.0m related primarily to the completion of the Worcester satellite field development well.
- Catcher capital expenditure during the period was lower than forecast at US$7.2m with the Catcher North and Laverda development wells, originally planned in 2020, having been deferred.
- Operationally it has been a relatively successful period for the Company with net oil production averaging c.22,400bopd, at top end of full year guidance.
- Full year production guidance has been narrowed to 21,000 to 23,000bopd and Cairn is now targeting Catcher and Kraken average all-in production costs of ~US$18/boe in 2020.
- At 30 June 2020, Cairn had hedged 1.6m barrels of forecast production through to December 2021. 0.9m barrels have been hedged using collar structures with a weighted average floor of US$60.0/bbl and an average ceiling of US$70.0/bbl, and 0.7m barrels hedged using swaps with a weighted average strike price of US$54.5/ bbl.

Our take: Against a depressed market backdrop Cairn continues to refine its portfolio to preserve its liquidity position. The Company’s exit from its interests in Norway and Senegal, together with a re-alignment of its capital programme in early 2020, has given the Company strategic flexibility at a vital point in the commodity and industry
cycle in our view. We believe Cairn is strongly positioned to capture further opportunities for near term development, growth and cashflow.

Echo Energy (ECHO LN): Initial assessment of the Monte Aymond gas project confirms commercial viability
Share price: 0.4p, Market Cap: £3m

- Echo has confirmed the completion of an initial assessment of the Monte Aymond gas project in Santa Cruz Sur, Argentina.
- The Monte Aymond project, located 5.2 km to the west of Campo Limite on the Company’s existing Palermo Aike licence at Santa Cruz Sur, involves working over the Monte Aymond well which was drilled successfully in 1984, targeting a Springhill reservoir structure imaged on 3D seismic.
- The well successfully discovered and tested gas and condensate at an initial flowrate of 2.4MMscf/d, and subsequently at an average rate of 5MMscf/d over a longer 10-month period of production.
- Whilst this well was previously abandoned, the Company believes that the now improved local infrastructure and prevailing gas prices mean Monte Aymond is now a commercial project.
- In 2019, a conceptual study was undertaken by the then Santa Cruz Sur Joint Venture partners around the export of Monte Aymond gas with a proposed 2.6km flow line and associated infrastructure to processing facilities across the border in Chile at a gross cost of US$570k and with an economic payback period of 3 months.
- This assumed a realised sales price of US$42/bbl of oil and a gas price of US$3.5/mmbtu.
- Building upon this historical work, Echo has also commenced a feasibility study to explore the option for micro-LNG (compression and liquefaction of natural gas) at Monte Aymond which would increase the Company's ability to sell gas directly to clients in remote areas via truck transportation (a virtual pipeline) with the potential to achieve materially higher sales prices.
- As an alternative to the micro-LNG option, the Company is considering the development of Monte Aymond via both the aggregation of the volumes of Campo Limite, and Monte Aymond via a hub development approach to potentially lower development costs and increase the returns from both projects and also a standalone development.
- The Company also confirms that testing of the previously drilled CLix-1001 well at Campo Limite will be scheduled once ongoing COVID-19 travel restrictions in Argentina, including the country’s borders remaining closed to non-residents, have been lifted and that the testing of the CLix-1001 well, and operations related to the identified portfolio of proposed workovers and interventions at Santa Cruz Sur announced by the Company on 8 June 2020, remain operational priorities for the Company.  

Our take: A positive update from Echo today, outlining a potentially material commercial development in Santa Cruz Sur. The potential micro-LNG development plan which would involve minimum capital investment also suggests limited technical risk, having already been tested and can potentially be exploited with an innovative, and low capital, route to market.

Jersey Oil & Gas (JOG LN): Interim results, JOG continues to finalise development plan for GBA
Share price: 121p, Market Cap: £26m

- Given its pre-production status, JOG’s interim financials are of limited value however the Company ended the period with a strong £8.9m cash position.
- The loss for the six months to 30 June 2020, before and after tax, was £1.2m (2019 interims: £0.4m).
- The Company's main expenditure during the six-month period related to the ongoing Concept Select work on its GBA project.
- JOG is currently £1.0m ahead of our previously announced annual budget of £7.5m, through its prudent management of its available capital.
- Operationally, the Company continues to mature work on the Concept Select phase of its planned development of the Greater Buchan Area (GBA).
- During the period, JOG acquired Equinor’s 70% working interest in Licence P2170 (Blocks 20/5b and 21/1d), which contains the Verbier discovery, and as a result, the Company is now the operator of this licence, with a total working interest in the licence of 88%.
- In terms of outlook, having selected the fundamentals of a development concept for the GBA, JOG is now progressing through the final stages of the Concept Select work programmes and, once completed, we will be assessing the timing of a sales process/approach to industry partners in order to part fund the GBA development.
- This is an exciting prospect for the Company, with significant and de-risked discovered oil volumes that form the core of this development, together with exploration upside and a working plan on how to progress to first oil almost completed.
- The Company envisages this sales process to most likely take place in Q1 2021.
Our take: The Company will now look to finalise its development plan for the GBA ahead of the planned funding/farm-out sales process anticipated in Q1 2021.

Sam Wahab - 0203 470 0473
sam.wahab@spangel.co.uk

Sales
Richard Parlons – 020 3470 0472
Abigail Wayne – 020 3470 0534
Rob Rees – 020 3470 0535

SP Angel
Prince Frederick House
35-39 Maddox Street London
W1S 2PP

*SP Angel employees may have previously held, or currently hold, shares in the companies mentioned in this note.

Sources of commodity prices
Oil Brent, WTI ICE
Natural Gas NYMEX

Disclaimer Non-Independent Research

This note has been issued by SP Angel Corporate Finance LLP (“SP Angel”) in order to promote its investment services and is a marketing communication for the purposes of the European Markets in Financial Instruments Directive (MiFID) and FCA’s Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

SP Angel considers this note to be an acceptable minor non-monetary benefit as defined by the FCA which may be received without charge. In summary, this is because the content is either considered to be commissioned by SP Angel’s clients as part our advisory services to them or is short-term market commentary. Commissioned research may from time to time include thematic and macro pieces. For further information on this and other important disclosures please the Legal and Regulatory Notices section of our website Legal and Regulatory Notices.

While prepared in good faith and based upon sources believed to be reliable SP Angel does not make any guarantee, representation or warranty, (either express or implied), as to the factual accuracy, completeness, or sufficiency of information contained herein.

The value of investments referenced herein may go up or down and past performance is not necessarily a guide to future performance. Where investment is made in currencies other than the base currency of the investment, movements in exchange rates will have an effect on the value, either favourable or unfavourable. Securities issued in emerging markets are typically subject to greater volatility and risk of loss.

The investments discussed in this note may not be suitable for all investors and the note does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. Investors must make their own investment decisions based upon their own financial objectives, resources and appetite for risk.

Please, see disclaimer at the of this document
This note is confidential and is being supplied to you solely for your information. It may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose. If this note has been sent to you by a party other than SPA the original contents may have been altered or comments may have been added. SP Angel is not responsible for any such amendments.

Neither the information nor the opinions expressed herein constitute, or are to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. Opinions and estimates included in this note are subject to change without notice. This information is for the sole use of Eligible Counterparties and Professional Customers and is not intended for Retail Clients, as defined by the rules of the Financial Conduct Authority (“FCA”). Publication of this note does not imply future production of notes covering the same issuer(s) or subject matter.

SP Angel, its partners, officers and or employees may own or have positions in any investment(s) mentioned herein or related thereto and may, from time to time add to, or dispose of, any such investment(s).

SPA has put in place a number of measures to avoid or manage conflicts of interest with regard to the preparation and distribution of research. These include (i) physical, virtual and procedural information barriers (ii) a prohibition on personal account dealing by analysts and (iii) measures to ensure that recipients and persons wishing to access the research receive/are able to access the research at the same time.

SP Angel Corporate Finance LLP is a company registered in England and Wales with company number OC317049 and whose registered office address is Prince Frederick House, 35-39 Maddox Street, London W1S 2PP. SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority whose address is 12 Endeavour Square, London E20 1JN.

Recommendations are based on a 12-month time horizon as follows:

Buy - Expected return >15%
Hold - Expected return range -15% to +15%
Sell - Expected return < 15%