

# *Longboat Energy – Interim Results to 30 June 2020*

*September 2020*



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# Interim Highlights

Six months period to 30 June 2020

## Financial Summary

- Cash reserves of ~£8.1 million at 30 June 2020
- Low fixed running costs of ~£125k per month
- Significant capacity to pursue attractive opportunities as activity picks up

## Business Summary

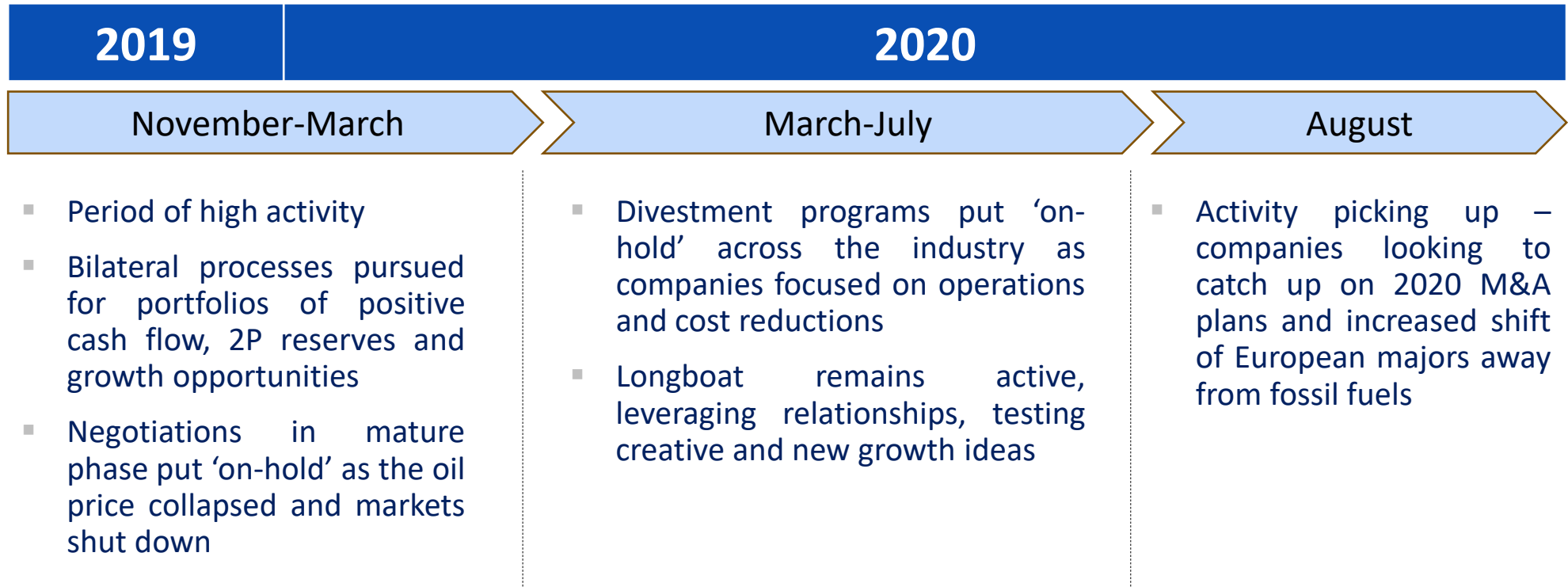
- Company has been involved in several bilateral processes - curtailed by Covid-19
- M&A market is returning, Longboat making good progress on several fronts
- Norwegian temporary tax changes have lowered breakeven oil prices and increased project IRRs – production remains the priority but now also consider adding modest exposure to developments

## Outlook

- Core strategy remains unchanged
- Market dislocation presents exciting opportunity - backlog of transactions beginning to unwind
- Majors and large E&P players have announced plans for substantial divestments
- Longboat well positioned to pursue opportunities

# M&A Activity

Longboat continuing to chase value accretive opportunities – activity levels returning



***“2020 has so far recorded the lowest number of deals in any quarter or any half-year. The monthly average spend on transactions deals has been just 5% of the run rate of the last 15 years”***

Wood Mackenzie 23 July 2020

# Norwegian Fiscal Stimulus

New tax arrangements widens the opportunity set

## Changes to Norwegian tax rules

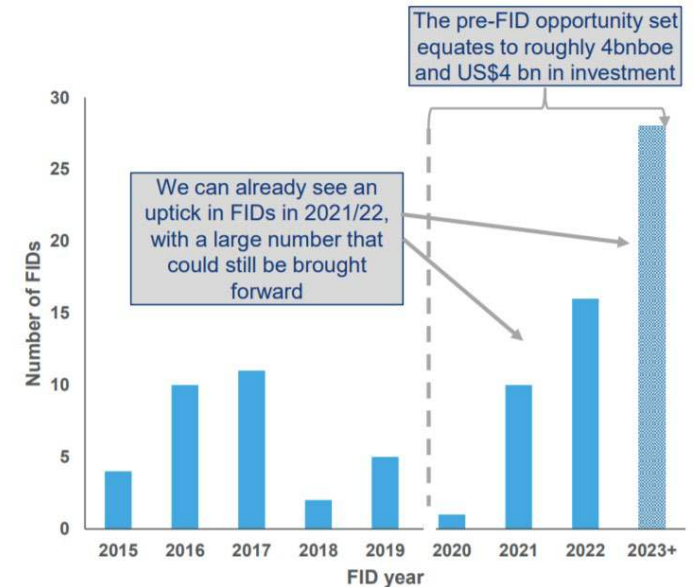
- Immediate tax allowance of Capex and uplift in the calculation of petroleum tax
- Uplift increased from 20.8% over four years to 24% in year one
- Value of tax losses for 2020-2021 will be paid out via the normal tax instalment process (similar to exploration refund)
- Applicable to all field developments (PUDs) submitted before end 2022

## Impact

- Tax changes lower the breakeven oil prices and increase IRRs for non-sanctioned development projects
- Many companies have already announced new plans to submit PUDs for new projects and/or accelerate project upgrades/infill drilling plans

## Consequences for Longboat

- Project acceleration is putting pressure on capex budgets, forcing less-well capitalised companies to exit developments
- Tax structure allows for greater debt financing of capital investment by new entrants such as Longboat
- Longboat now able to consider adding modest exposure to developments as part of larger production deals



Source: Woodmac (Norway Tax Change: an in-depth view)

# Market Outlook

Opportunities: drivers enhanced, but extended timelines

- **M&A market in Europe effectively 'on hold' since March due to Covid-19 and the subsequent commodity price collapse**
  - Number of processes halted (e.g. Exxon UK, Spirit) or renegotiated (e.g. Premier/BP)
- **Underlying rationale for divestments by Majors and large independents now at forefront of agenda:**
  - Vocal transition away from hydrocarbons by European Majors (e.g. BP, Shell)
  - Reduction of global capex budgets in a lower oil price environment
  - Maintain dividends and debt reduction targets
  - Rationalise portfolios to reduce G&A costs and staffing levels
- **Key learnings from transactions executed post 2015-2017 downturn:**
  - Time lag between strategic decisions to sell and actual marketing
  - Transactions tend to be more structured to account for future price uncertainty
  - Patience benefits the buyers as sellers become more realistic on price expectations (e.g. Chrysaor/Shell)
- **M&A market is beginning to revive with significant backlog of transactions**
  - Reduced competition as consolidation and industry dislocation has further reduced number of North Sea E&P's capable of acquiring medium-to-large asset packages

# Progress & Outlook

## Despite challenges

### Progress

- In the run up to the downturn in March, multiple potential transactions analysed
- Transactions under negotiation put on hold to allow for market stabilisation
- Numerous opportunities under active consideration

### Outlook

- Core strategy remains unchanged
- Market dislocation presents an exciting opportunity as the backlog of transactions begins to unwind
- Many of the Majors and large E&P players in the North Sea have announced significant changes in strategic direction which will require a substantial divestment of assets
- Longboat is well capitalised to pursue the expected transactional opportunities, guided by a management team with a strong track record of delivering value through M&A

**Acquisitions now offer the dual benefit of both the technical upside and price recovery**

# *Appendices*



# Longboat Introduction

Longboat Energy - Building a significant North Sea-focused E&P business to deliver value to shareholders

## Strategy

- Create a full-cycle North Sea E&P company, replicate Faroe Petroleum success
- Deliver growth and shareholder value through value accretive M&A
- Focus on lower-risk, near-field exploration with access to infrastructure

## Proven Management Team

- Leverage operational and subsurface expertise to identify and extract incremental value
- Strength and quality of relationships establishes Longboat as a trusted partner
- Management incentivisation structure aligned with IPO investors

## Strong Financial Position

- Cash of ~£8.1 million at 30 June 2020
- Low fixed-cost cash-burn rate allows team to be patient for the right deal
- Covid-19 impact on business practices has reduced costs associated with M&A

# Financial Position at 30 June 2020

Financially prudent and well capitalised to pursue transactional opportunities

Key Financials	£ millions	Notes
As at 30 June 2020		
Cash	8.10	31 Dec 2019: £9.2 m
Admin expenses		
Staff costs	-0.35	
IFRS 2 charge (non-cash)	-0.05	
Screening & professional fees	-0.52	Reflecting reduced A&D activity, also includes audit & accountancy fees
Other	-0.19	
Total expenses	-1.11	
Loss for the period	-1.11	
Monthly fixed running cost	~0.125	Low cash-burn rate with limited commitments and employees

# Indicative Target Assets

## Approach to Acquisitions – unchanged – discipline is key

- Use team's industry knowledge and relationships to take a focused approach to identify specific target acquisitions
- Pursue bilateral situations where possible
- Initial acquisitions to create a sustainable and scalable platform
- Possibility of funding initial acquisitions through a combination of debt and equity

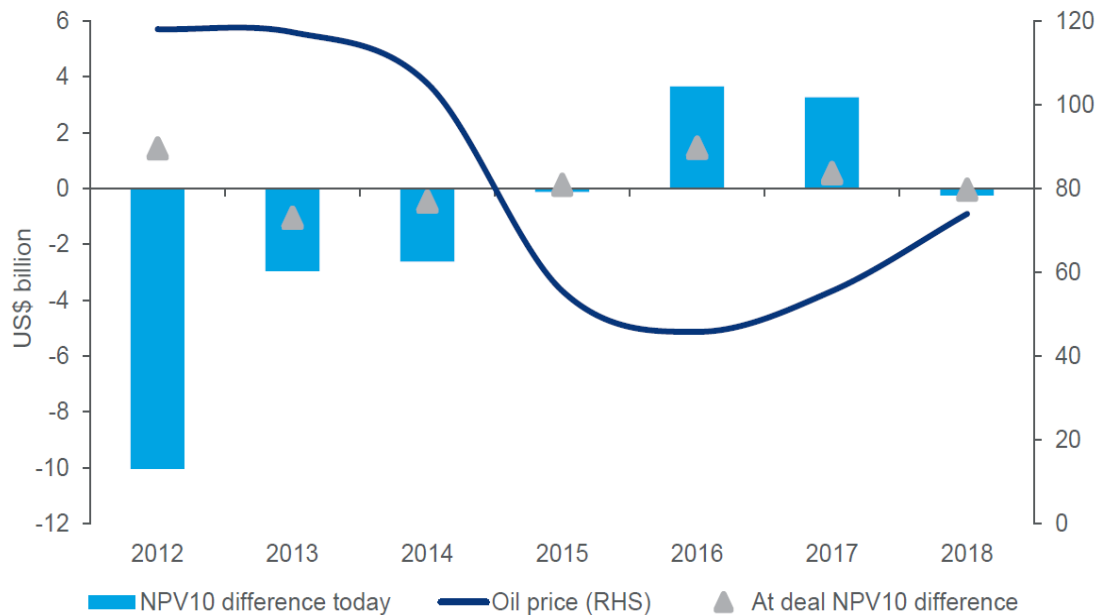
## Target Assets

- North Sea: Norway and UK
- Aligned partnerships with ability to influence and optimise operations – increasingly important to vendors
- Targeting immediate production, providing immediate cash flow to fund organic growth
- In Norway, also targeting development assets to take advantage of fiscal stimulus
- Robust economics, sustainable in this low oil price environment - flexible deal structures key
- Hub focus: acquire assets near infrastructure with significant remaining subsurface upside potential
- Identified exploration opportunities both in-field and near-field
- Sensible approach to abandonment - limit exposure where possible with opportunities to extend asset lives
- Target deal size in the high \$10s of millions to low/mid \$100s of millions – funded through equity and debt

# M&A - historic low point in the commodity cycle

Longboat will leverage its operational and geological expertise to extract incremental value from acquisitions

M&A value creation v Brent price (2012 – 2018)



Wood Mackenzie: M&A Tool, GEM

## Case Study

**Faroe** 2016 acquisition of NCS assets from **DONG energy**

Field optimisation delivered rapid payback and significant value creation in non-operated stakes

### Full pay-back achieved 11 months from acquisition

- Acquired non-operated stakes in Ula, Tambar, Oselvar and Trym fields from DONG Energy for \$70m

### 90% increase in 2P reserves in 3 years

- 2P reserves of 20 MMboe at acquisition
- c.90% increase in 2P reserves in 3 years
- 3x increase in 2C resource also achieved

### Ongoing development will deliver significant value and extend field lives

- Ula field life expected to be significantly extended
- Oselvar being considered for appraisal and redevelopment
- Trym to be brought back on stream alongside Tyra