

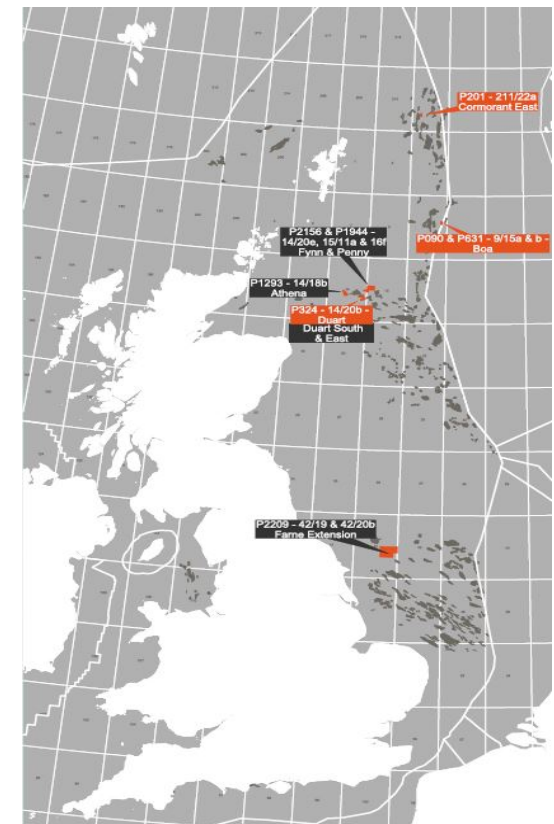
The Importance of Reserves Audits & CPRs to the Small Independent E&P Company

SPEE Meeting, London, 9th March 2017

Company overview



- Production and development focused UKCS E&P independent
- Owned by a fund managed by leading oil & gas private equity investor HitecVision
- Experienced management team and lean organisation (14 staff)
- Aim to create a quality and sustainable UKCS oil & gas company through deal making, and innovative development and efficient production
- Low cost reserve base of 8 mmboe at three oil producing fields – Boa, Duart and Cormorant East
- Production of 2,000 boepd, expected to grow to 3,400 boepd in 2018
- Strong financial position – and significant remaining unallocated Fund VI capital
- Tax loss pool – no taxes expected payable on existing reserve base

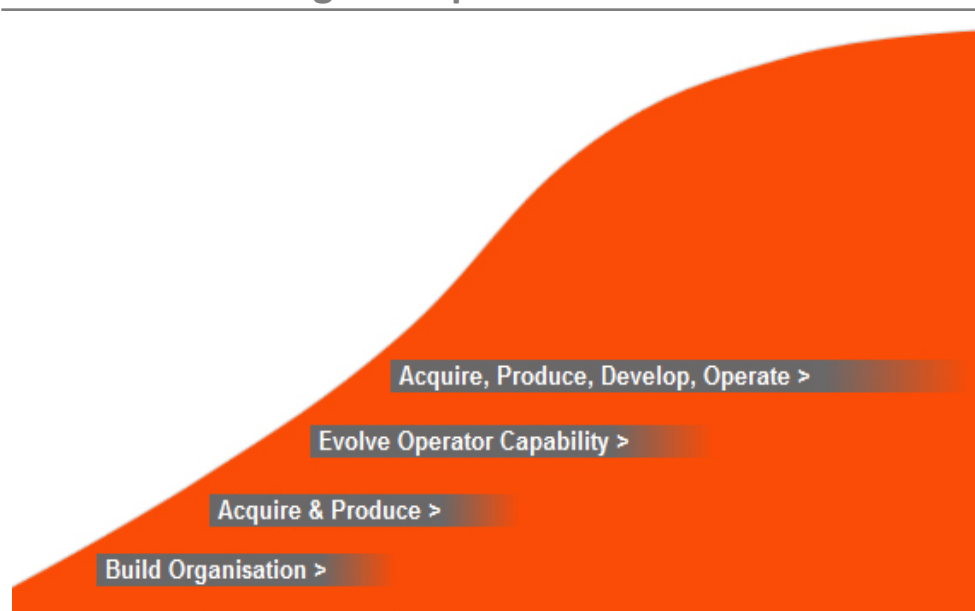


Strategy and growth plan



- UK consolidation player
- Initial focus on production - capture development opportunities as production base grows
- Smart engagement with supply chain
- Capacity to operate large scale assets
- Scale provides more exit options and clout with regulator and “big oil”

Verus Petroleum growth plan



UKCS offers an attractive growth opportunity with 10-20 billion boe remaining resources, declining unit costs and a large M&A opportunity set

Strong owner in HitecVision



30

years of experience in the oil and gas industry

150

companies invested in, acquired or established – over 100 exited

80%

of companies sold to industry

37

person investment team

Company

- Operating in the oil & gas industry since 1985
- Specialist oil & gas private equity investor since 2002
- Headquartered in Stavanger with offices in Oslo and Houston
- Five active funds with USD 5 billion in committed capital

#1 The largest PE house in Norway

#1 The largest sector focused fund manager in Europe

#6 The 6th largest energy focused fund manager globally

Team

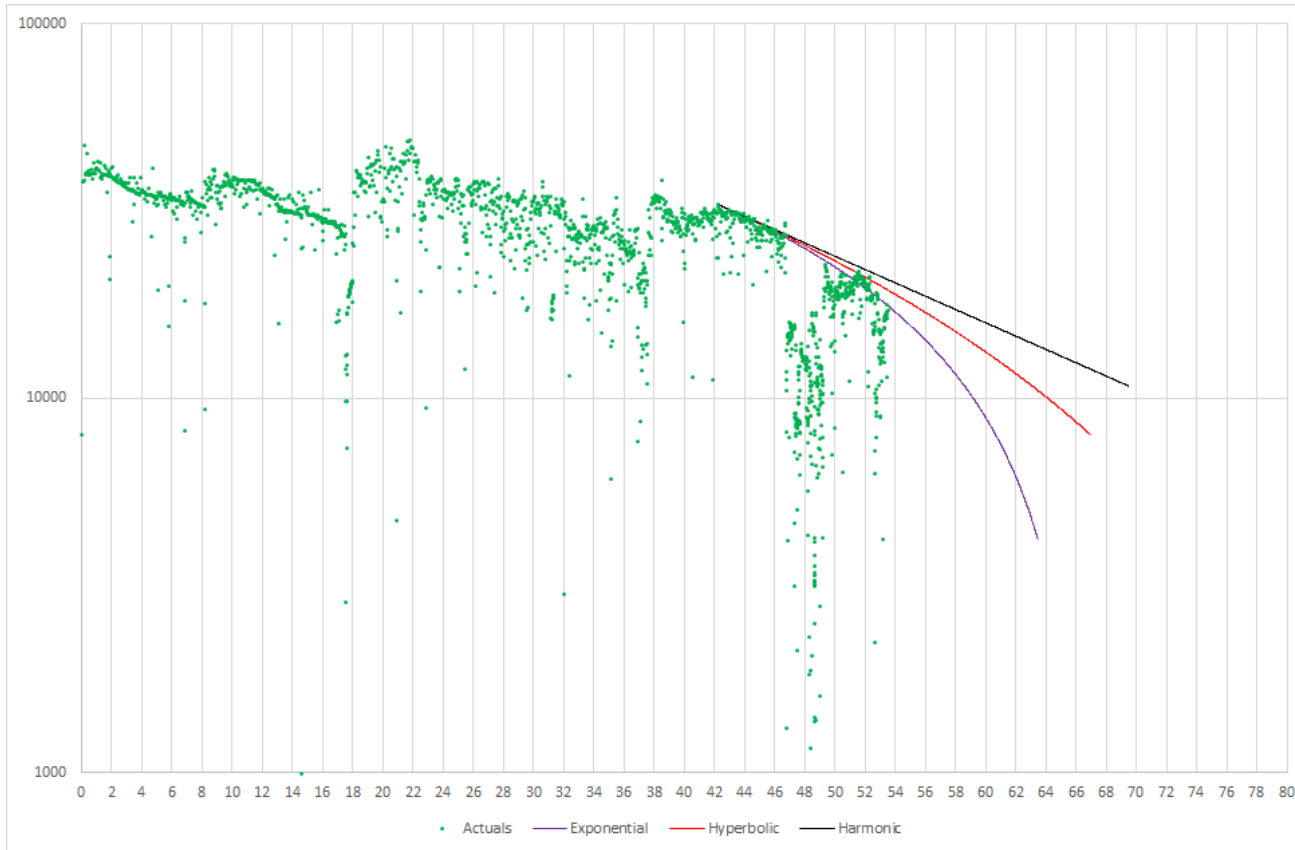
- Partner team with average industry experience of 20 years
- Combines industry expertise, transaction experience, operating capabilities and extensive international network to progress companies
- Proven tools and techniques for value creation continue to generate unique opportunities and attractive returns





A Warning From History!

- Standard DCA -harmonic, hyperbolic and exponential
 - Anonymised dataset, RAR outputs based on $b=1, 0.5, 0$
 - Natural infinite acting aquifer, gas lift, constant liquid rate



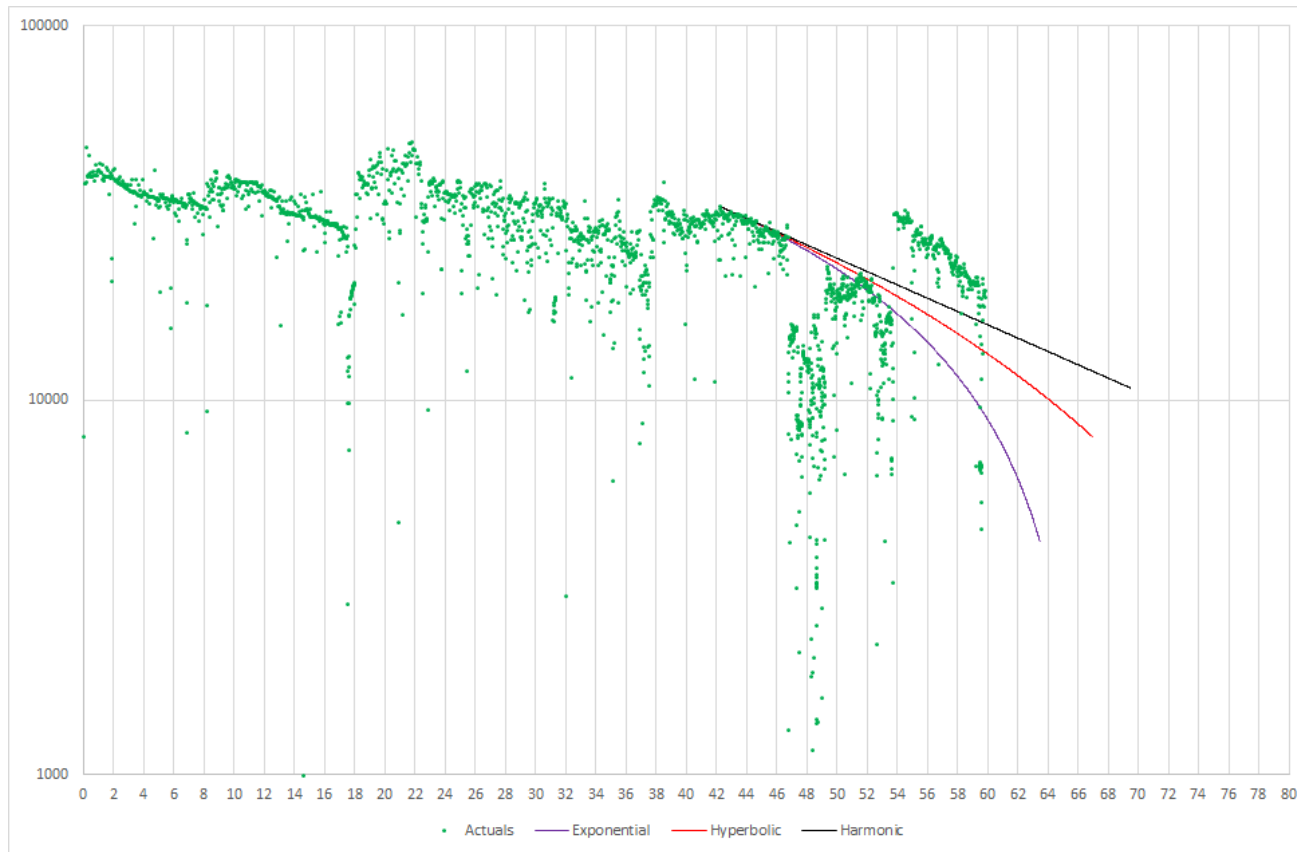
The Small Independent Model



- The business model is about growth
 - Small Independents are amongst the few growing
 - Chrysaor, Siccar Point, Neptune, Verus etc.
 - Typically private equity backed
 - GNRI, NGP, BlueWater, Blackstone, Carlyle, HitecVision etc.
 - Using debt and equity
- Growth comes from debt
 - Based on existing and target assets
 - Using cash thrown off to part fund the next deal
- Debt comes from reserves audits & CPRs
 - To achieve growth, these need to reflect true value

A Warning From History!

- One year on.....
- Oops!



Reserves Audits & CPRs?



- Reserves Audits
 - Annual cycle
 - Predictable
 - Routine corporate management
 - Compliance with established debt facilities
- CPRs
 - Ad hoc
 - Asset acquisitions – or company sale
 - Short time fuse, weeks
 - Corroborates company evaluation – assurance for PE & banks

The Impasse



- Debt is tightly controlled in this new reality
 - Whether from banks, private equity or markets, recent losses make new debt difficult to obtain
 - There have been a few notable cases where asset owners have presented only the data which supports their preferred outcome
 - This has resulted in Competent Persons, debt providers and asset purchasers making decisions on misleading data
 - It is not how we should behave
- We need a new way of working
 - Gaming reserves is unsustainable for small oil, Competent Persons AND the banks

Going Forward



- Consider the team
 - Some have full subsurface and commercial expertise in-house
 - They know their assets well
 - Acquisition targets will likely have been intensively worked
 - This means that by the time the competent person sees the profiles, they may have been audited as part of the internal due diligence process
 - Others don't – their profiles' provenance needs to be examined
 - Some just use the vendor's sales case
- The Auditor
 - and the client need to agree whether an audit or a fully independent derivation is required
 - Existing assets tend towards audit
 - Acquisition targets tend towards independent evaluation

The Importance of RARs & CPRs to Small Oil

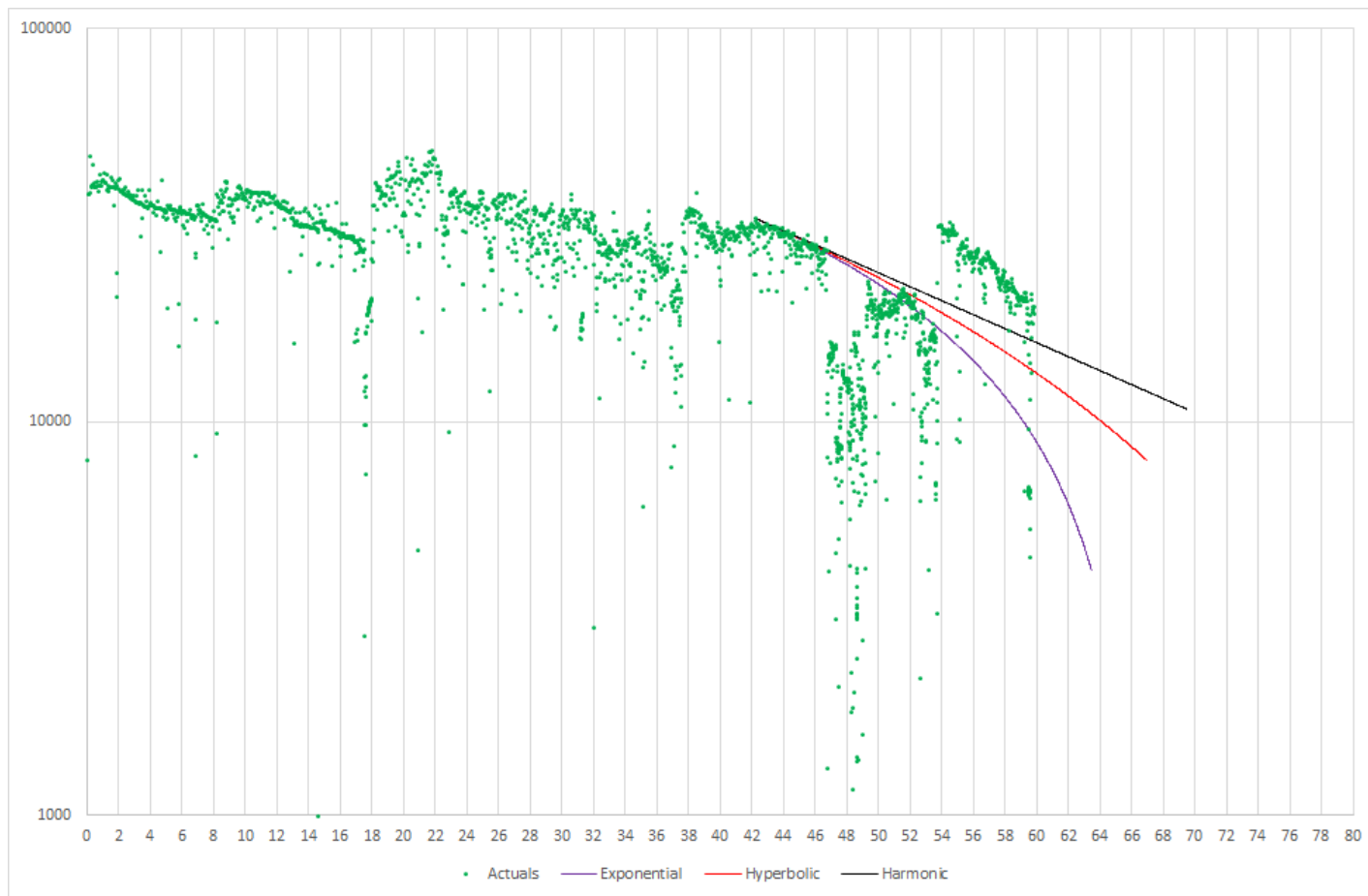


- What do we want?
 - To engage with the CPR to represent our assessment
 - To agree a technically robust set of profiles and reserves
 - RARs & CPRs which recognise the true value of the assets

- What don't we want?
 - A cook book solution
 - The wheel re-invented
 - A negotiation
 - Discounted profiles and reserves “because you are a new client”
 - on top of discounted price decks and cover ratios from banks' credit committees doesn't leave us with much debt

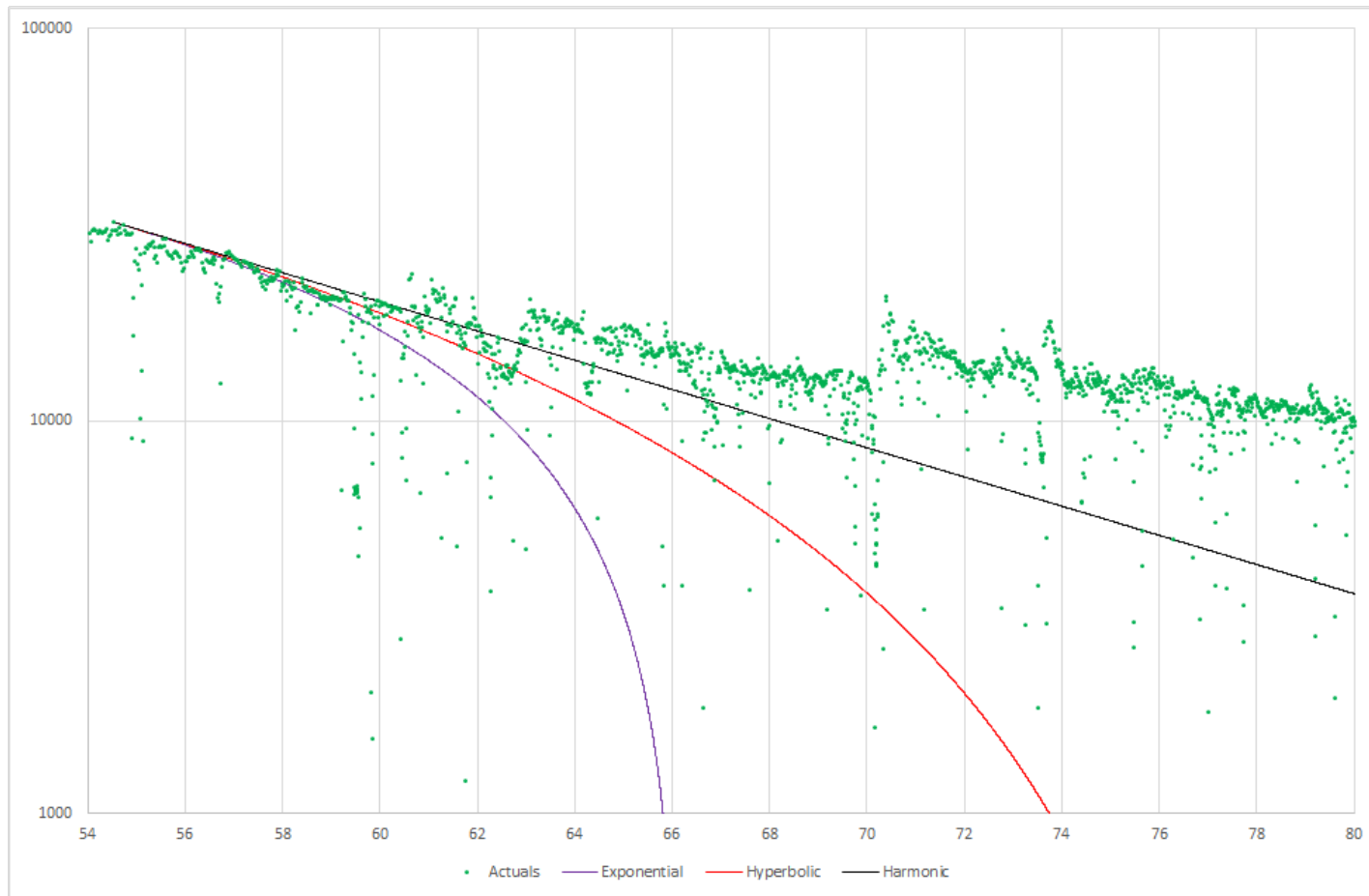
A Warning From History!

- So, where were we?
- Let's zoom in on the action



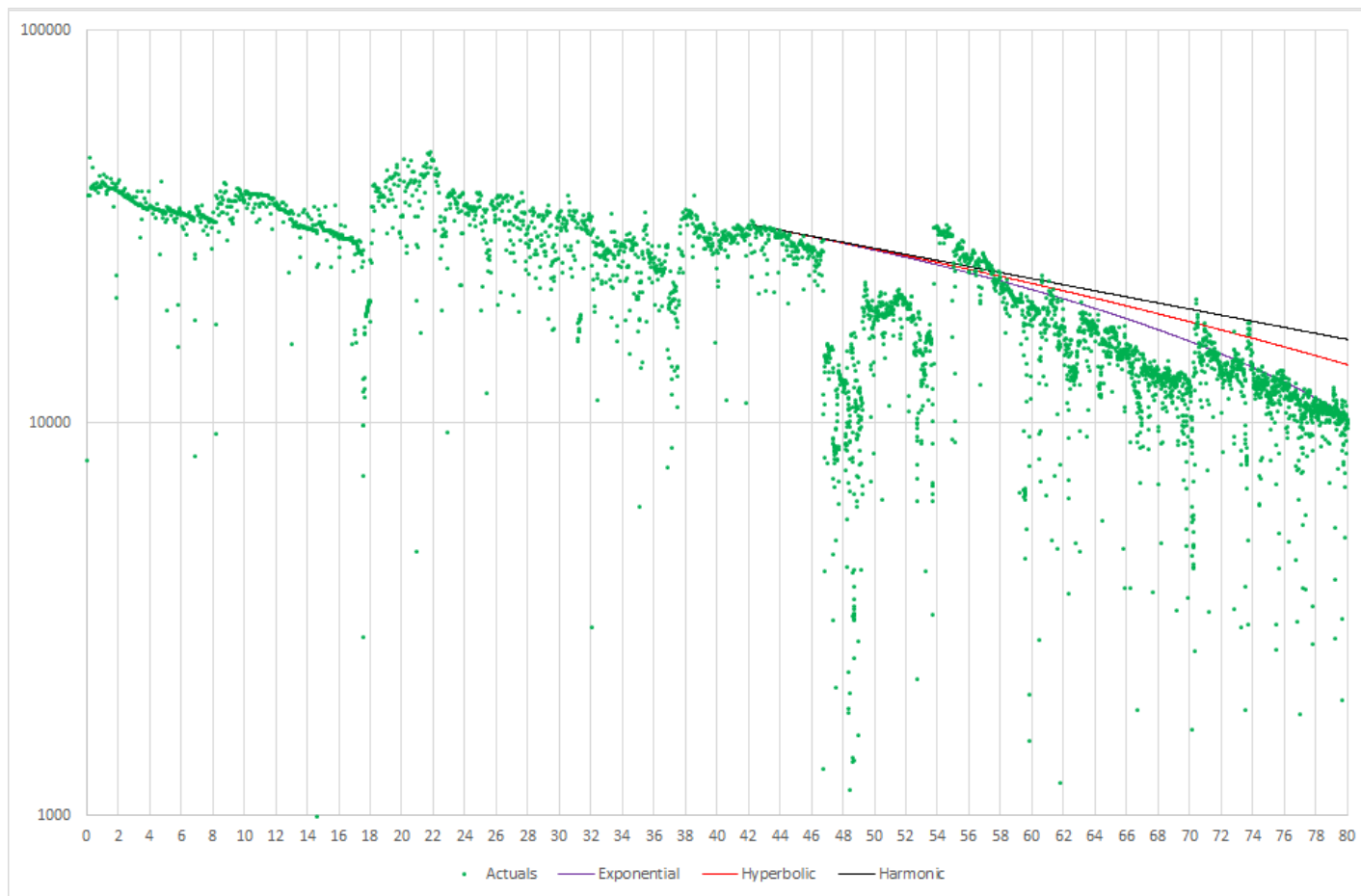
A Warning From History!

- The next five years.....
- Oh dear!



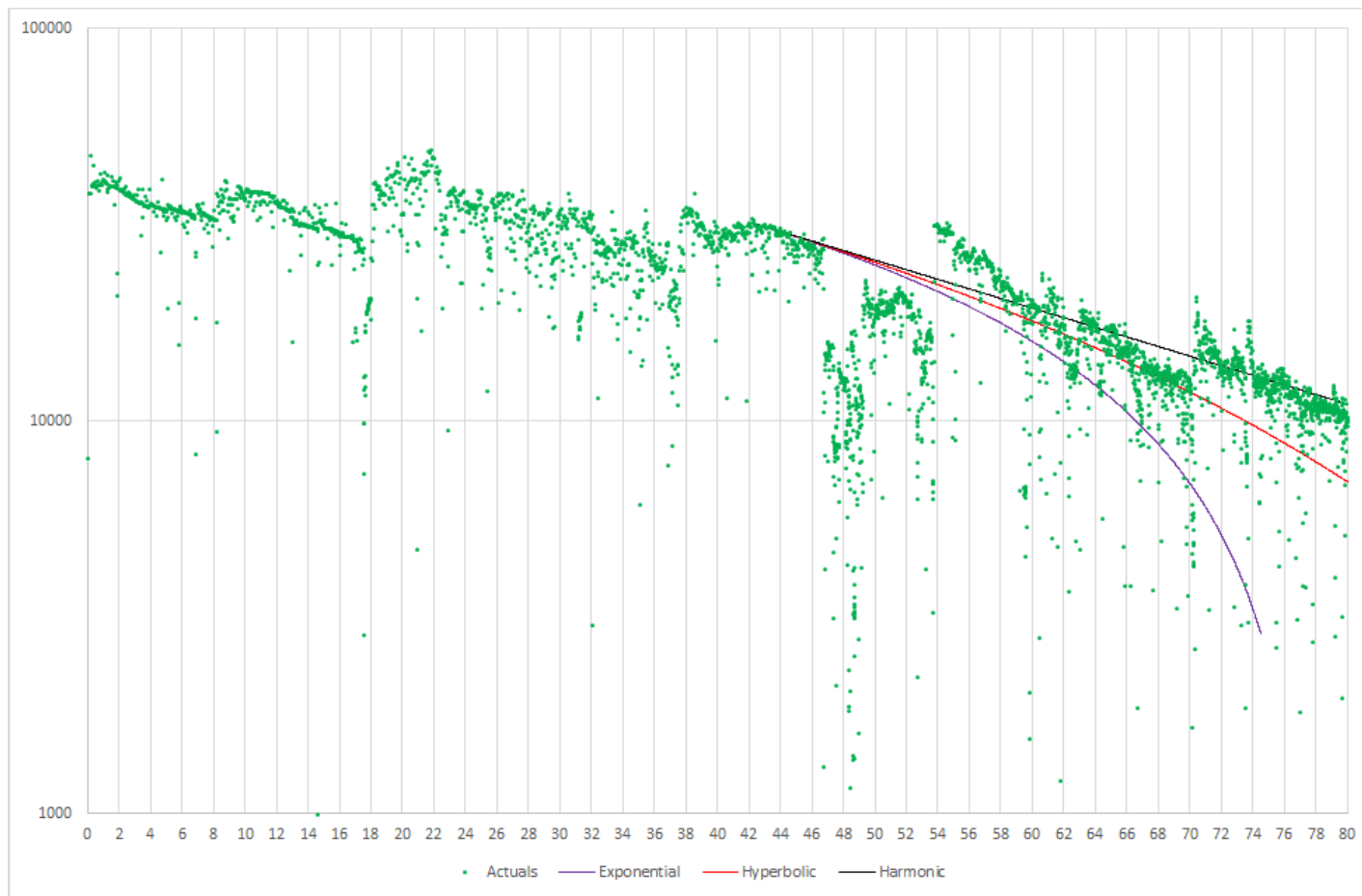
A Warning From History!

- What would we do differently?
- Exponential was obviously the right answer!



A Warning From History!

- Of course not, we know it had to be Hyperbolic?
- Maybe Harmonic?



In Conclusion



- The future of the North Sea is increasingly in the hands of Small Oil
- In order to grow, Small Oil needs debt based on the true value of it's assets with transparent risking
- Small Oil and Competent Persons need to work in a new way, more openly
 - The green shoots are there