

## Two Material Catalysts Reinforce Our Investment Thesis



Last week Eco Atlantic released a competent persons report (CPR) on its Orinduik license area, offshore Guyana and announced that Total has exercised its farm-in option agreement with the company for this block. We also welcomed the Company's CEO, Mr. Gil Holzman as a presenter to our 25<sup>th</sup> annual Oil and Offshore Conference in Oslo. In this report we highlight our main take-aways from these events and refresh our investment thesis.

### Impact: POSITIVE

We are increasing our target price to GBp120 from GBp95, mainly due to greater clarity on the company's exploration prospects offshore Guyana, with resources estimates materially higher than our previous assumptions.

### Highlights:

- Aggregate prospective resource estimate of ~2.5bn barrels of oil (gross) across ten targets compare to our previous assumption of 900 mmbbl across two targets
- Total's exercise of its farm-in option has reduced the company's net interest in the Orinduik block to 15% from 40%, which was already assumed in our valuation
- Total is now committed to pay Eco Atlantic USD12.5 million on the receipt of the government approval
- We expect that with this cash proceed, Eco Atlantic is funded for at least two Orinduik exploration wells
- We understand that the Orinduik partners (Tullow as the operator, Total and Eco Atlantic) are working on plans with to drill the first exploration well in Q3'19, which is ahead of our expectation for drilling in late 2019.

### Conclusion

Eco Atlantic is an exploration-focused company with attractive and potentially high impact exploration prospects offshore Namibia and Guyana, in our view. As a pure explorer the company is a high risk investment proposition. However, we are very encouraged by its progress towards its exploration catalysts in 2019 and endorsement of its exploration portfolio by leading independents and majors (such as Tullow and Total). With its available funding and near-term catalysts, we consider the company as an attractive investment on a risk-adjusted basis, and a strong addition to a balanced portfolio. **We re-iterate our BUY recommendation with a new target price of GBp120.**

### Forecast changes

| %            | 2016 | 2017 | 2018e |
|--------------|------|------|-------|
| Revenues     | -    | -    | -     |
| EBITDA       | -    | -    | -     |
| EPS reported | -    | -    | -     |
| EPS adj      | -    | -    | -     |

Source: Pareto

### Performance



Source: Factset

### Analysts

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# Details

## Orinduik CPR

Link to the company's Orinduik CPR – [LINK](#)

The CPR presents gross un-risked prospective resources (Best Estimate) of ~2.9bn barrels of oil equivalent for the Orinduik block with an approximate 85:15 oil to gas ratio. These are summarised in Exhibit 1. These resources are estimated for 10 targets identified across the block (Exhibit 2); these are listed in Exhibit 3 along with their estimates of gross resources and chance of success.

Resource estimates are in range of 27 – 667 mmbob with CoS range of 17.0% - 22.4%. Mean average resource estimate is 291 mmbob with a weighted average CoS of 21.5%. It is important to highlight that the company has also identified a number of Tertiary targets that are included in this report and which are subject to further analysis following the nearby Hammerhead Tertiary oil discovery (~6km) on the adjacent block (as shown in Exhibit 2).

**Exhibit 1. Summary of Orinduik's Gross Prospective Resources**

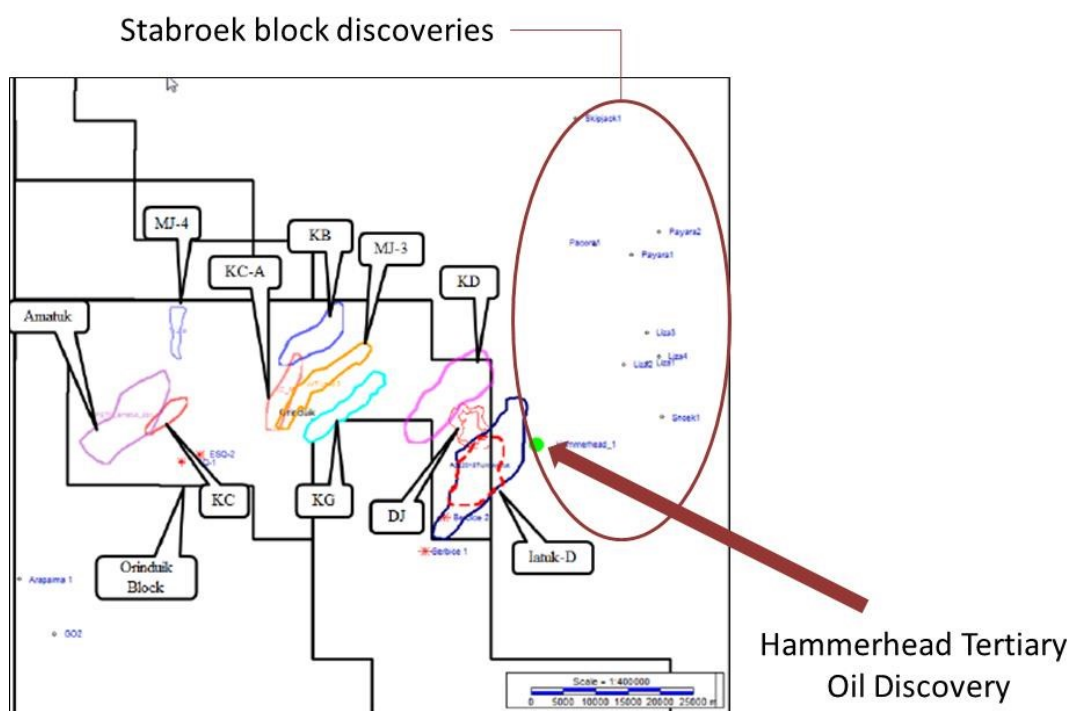
| Orinduik Block | Gross Prospective Oil Equivalent Resources, MMBOE <sub>6</sub> |               |               |
|----------------|--|---------------|---------------|
|                | Low Estimate   | Best Estimate | High Estimate |
| <b>TOTAL</b>   | 1,516.8  | 2,913.3       | 5,219.4       |

| Orinduik Block | Oil in Place, MMBbl |               |               | Prospective Oil Resources, MMBbl |               |               | Prospective Associated Gas Resources, BCF |               |               |
|----------------|---------------------|---------------|---------------|----------------------------------|---------------|---------------|---|---------------|---------------|
|                | Low Estimate        | Best Estimate | High Estimate | Low Estimate                     | Best Estimate | High Estimate | Low Estimate                              | Best Estimate | High Estimate |
| <b>TOTAL</b>   | 4,944.9             | 9,263.2       | 16,169.2      | 1,309.2                          | 2,505.1       | 4,467.7       | 1,245.3                                   | 2,449.1       | 4,510.0       |

Source: Gustavson Associates

**Exhibit 2. Location of Orinduik Block Leads**



Source: Gustavson Associates, Pareto Securities

**Exhibit 3. Orinduik Block Leads**

| Lead   | Minimum<br>(P10)<br>km <sup>2</sup> | Most Likely<br>(P50)<br>km <sup>2</sup> | Maximum<br>(P90)<br>km <sup>2</sup> | Gross Unrisked Prospective<br>Oil Resources (P50)<br>MMBOE <sub>6</sub> | Risk<br>POS% |
|--------|-------------------------------------|---|-------------------------------------|---|--------------|
| KB     | 17                                  | 27                                      | 43                                  | 243.3   | 21.0%        |
| DJ     | 14                                  | 24                                      | 30                                  | 150.1   | 21.0%        |
| KG     | 17                                  | 30                                      | 34                                  | 633.7   | 22.4%        |
| KD     | 32                                  | 51                                      | 77                                  | 667.6   | 22.4%        |
| IatukD | 37                                  | 50                                      | 73                                  | 629.0   | 22.4%        |
| KC     | 6                                   | 11                                      | 15                                  | 40.9  | 19.2%        |
| Amatuk | 35                                  | 68                                      | 90                                  | 228.9   | 19.2%        |
| MJ-3   | 18                                  | 25                                      | 37                                  | 229.3   | 19.2%        |
| MJ-4   | 3                                   | 5                                       | 12                                  | 27.4  | 19.2%        |
| KC-A   | 7                                   | 9                                       | 12                                  | 63.2  | 16.8%        |

Source: Gustavson Associates

### Total Exercise of the Orinduik Farm-in Option

Although we had anticipated Total to exercise its option to acquire a 25% W.I. from Eco Atlantic's previously held 40%, we view the timing as very interesting and positive. In our opinion this decision, which followed the publication of the CPR, could have in fact been taken because of the Hammerhead Tertiary oil discovery (as reported by some industry journals) on the adjacent Stabroek block, which materially de-risks analogue prospects in the Orinduik block.

Furthermore, the CPR suggests that the Orinduik partners have 3D seismic coverage over the Hammerhead discovery and it is possible that the fairway de-risked by this well may extend into the Orinduik block. We now expect the Orinduik partners to prioritise targets close to the boundary in the eastern part of the block.

### Pareto's Oil and Offshore Conference

We held our 25<sup>th</sup> Oil and Offshore conference in Oslo last week with 119 companies presenting and more than 900 1-on-1 investor meetings arranged. We welcomed a number of junior exploration companies to the line-up including: Africa Energy, Africa Oil, Azinam and Eco Atlantic. We were encouraged by the level of investor interest in these names both in terms of demand for 1-on-1 meetings and number of attendees at company presentations.

We are cautiously optimistic that equity investors are paying increasing attention to exploration investment opportunities. In our view, this follows an increasing pace of activity by the majors and larger E&P independents to secure exploration opportunities as demonstrated recently by Total's entry to the Orinduik license and the entry of ExxonMobil to the Walvis basin offshore Namibia, through two farm-in deals with Azinam and Galp.

## Outlook and Catalysts

Eco Atlantic's share price has performed very strongly with an increase of 48% since August 29<sup>th</sup>, 2018 and an increase of 88% YTD. We believe this is mostly due to the updates on its Orinduik interest. With the release of the CPR and Total exercise of its farm-in option, we now expect the markets' near term attention to shift to the company's Namibian acreage and two third-party exploration drilling catalysts in Namibia's Walvis basin:

- Cormorant-1 on PEL 37 is currently drilling with results expected in the next few weeks. The well is targeting a prospect with a pre-drill resource estimate of ~120 mmbbl.
- It is also anticipated that the same drillship being used to drill Cormorant-1 (Poseidon) will then be mobilised to drill Prospect 'S' on PEL 71 license area in Q4'18. This is target with an un-risked resource estimate of ~580 mmbbl.

In our opinion, a success on either of these wells would be a material catalyst for Eco Atlantic given its extensive acreage (interest in 24,700km<sup>2</sup> gross acreage) neighbouring these license areas in the Walvis basin.

Further ahead we also highlight the following catalysts:

- Possible farm-out deals of three of its blocks (Sharon, Guy and Tamar) offshore Namibia.
- Cooper exploration well (Q4'19) targeting ~880 mmbbl of prospective oil resources (gross). In case of a commercial oil discovery, this could be worth ~GBP220/sh (Pareto's estimate).
- Orinduik exploration well (Q3'19) targeting ~230-670 mmbbl of prospective oil resources (gross). In case of a commercial oil discovery, this could be worth more than GBP200/sh (Pareto's estimate).

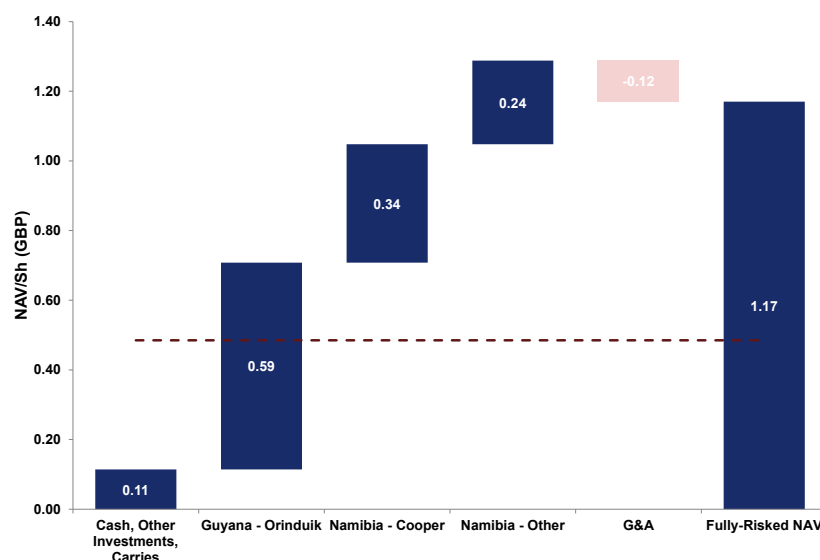
## Valuation

Our target price is based on our risked NAVPS of GBP117 per share. We have included risked NAV for the Orinduik, Cooper, Sharon and Guy blocks and excluded the Tamar block (Namibia) as it is currently subject to further technical studies to firm up its Prospective Resource estimates.

A breakdown of our risked NAV is presented in Exhibit 4. In our DCF valuation we have assumed:

- A discount rate of 12.5%, which we believe is an appropriate rate to try to account for the company's country, market and operational risk profiles
- A flat Brent price deck of US\$70/bbl
- In our valuation of the Orinduik block we have only included the oil resources and excluded ~400 mmboe of natural gas resources (gross)
- We have also applied a lower CoS for the targets than those shown in Exhibit 3 (except for KD and IatukD). This is based on our assumption that two wells will be drilled with drilling of subsequent wells contingent on success of the first two.
- Our risked Orinduik net resources (oil only) to Eco Atlantic is 49 mmbbl (previously 20 mmbbl)
- Our assumed CAPEX per barrel for Orinduik is USD 8/bbl with an OPEX of USD 10/bbl and first oil date of 2024

Exhibit 4. Risked NAV Chart



Source: Pareto Securities

## Key Risks to Pareto's Target Price

Our long-term outlook for the fundamentals affecting international oil and gas companies is generally positive. However, there are a number of risks that could affect operations of individual companies, or the sector as a whole.

Key risks associated with our target price include business risks of the company and industry, including, but not limited to: loss of key employees; drilling success; volatile commodity prices; operating costs; capital cost overruns; product supply and demand; financing/access to capital; government regulations; legislation; unexpected changes in contract/fiscal terms; asset expropriation; royalties; taxes; exchange rates; interest rates; and environment and weather concerns.

Key risks specific to Eco Atlantic include:

- **Modelling uncertainties** - our risked valuation of Eco Atlantic's assets and our target price are based on a set of assumptions including recoverable volumes, geological and commercial chances of success, project costs, first oil dates and production profiles. Considering the exploration nature of these assets there is a very high degree of uncertainty in these parameters.
- **Financial risks** – although we expect the company to be funded for its work obligations in 2018-2019, considering it has no production and cash flow, longer term investments could require new equity financing. Depending on future capital market dynamics and success of exploration campaigns, future fundraisings may be dilutive to shareholders, if not secured on favourable terms.
- **Regulatory and fiscal risks** – Eco Atlantic's blocks are in countries with no oil and gas production, relatively nascent hydrocarbon industries and regulatory frameworks. As these countries develop their hydrocarbon industries future regulations could pose a risk to the company and its operations. Furthermore, these countries have awarded licenses on relatively attractive fiscal terms given the frontier and exploration nature of their upstream sector. However, there is a

risk that under pressure from domestic stakeholders the governments seek to re-negotiate these agreements in the future.

- **Key personnel risk** – the company’s technical work is carried out through Kinley Exploration LLC, an organisation led by the company’s COO, Colin Kinley. Therefore, we view the company’s relationship with Mr. Kinley as key to the company’s operations and exploration work. Loss of Mr. Kinley may also result in loss of technical services provided by Kinley Exploration.
- **Venezuela vs. Guyana territorial dispute** – Venezuela has a long outstanding claim on Guyana’s Essequibo region and its associated territorial waters and Exclusive Economic Zone. This region accounts for more than half of the territory of Guyana and tension between the two countries has escalated since the discovery of oil offshore Guyana.



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| Aker Solutions           | 0                 | 2,085          | Helgeland Sparebank      | 0                 | 1,700          | REC Silicon            | 0                 | 161,192        |
| AKVA Group               | 0                 | 1,500          | Höegh LNG                | 0                 | 12,418         | SailMar                | 0                 | 130            |
| American Shipping Compar | 0                 | 3,105          | Høland og Setskog Spareb | 0                 | 972            | Sandnes Sparebank      | 0                 | 18,032         |
| Archer                   | 0                 | 73,520         | Ice Group AS             | 0                 | 55,500         | Scatec Solar           | 0                 | 37,800         |
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| Atea                     | 0                 | 450            | Komplett Bank            | 0                 | 97,100         | SpareBank 1BV          | 0                 | 10,000         |
| Austevoll Seafood        | 0                 | 5,780          | Kongsberg Gruppen        | 0                 | 3,700          | SpareBank 1Nord-Norge  | 0                 | 30,000         |
| Avance Gas               | 0                 | 32,701         | Lerøy Seafood            | 0                 | 43,572         | SpareBank 1SMN         | 0                 | 16,590         |
| Axactor                  | 0                 | 21,686         | Marine Harvest           | 0                 | 1,805          | SpareBank 1SR-Bank     | 0                 | 38,666         |
| B2Holding                | 0                 | 7,200          | Monobank                 | 0                 | 1,355,000      | SpareBank 1Østlandet   | 0                 | 2,891          |
| Bonheur                  | 0                 | 44,509         | NEXT Biometrics          | 0                 | 1,686          | Sparebanken Møre       | 0                 | 6,550          |
| BWLPG                    | 0                 | 4,392          | Nordic Semiconductor     | 0                 | 4,000          | Sparebanken Sør        | 0                 | 43,580         |
| DNB                      | 0                 | 34,910         | Norsk Hydro              | 0                 | 111,852        | Sparebanken Øst        | 0                 | 3,000          |
| DNO                      | 0                 | 18,983         | Norwegian Air Shuttle    | 0                 | 3,779          | Storebrand             | 0                 | 4,838          |
| DOF                      | 0                 | 138,498        | Norwegian Property       | 0                 | 162,000        | Subsea 7               | 0                 | 7,052          |
| Entra                    | 0                 | 14,362         | Ocean Yield              | 0                 | 31,842         | Telenor                | 0                 | 2,272          |
| Equinor                  | 0                 | 9,298          | Odfjell Drilling         | 0                 | 8,731          | TGS-NOPEC              | 0                 | 2,000          |
| Europris                 | 0                 | 9,360          | Orkla                    | 0                 | 23,526         | XXL                    | 0                 | 7,220          |
| Faroe Petroleum          | 9,600             | 9,600          | Panoro Energy            | 0                 | 18,020         | Yara International     | 0                 | 18,689         |
| Flex LNG                 | 0                 | 10,000         | Pareto Bank              | 0                 | 959,509        | Zenterio               | 0                 | 78,865         |

This overview is updated monthly (last updated 15.08.2018).

\*Analyst holdings refer to positions held by the Pareto Securities AS analyst covering the company.

## Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading ST Regulation § 3-11, letters d-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

|                             |                         |                                      |
|-----------------------------|-------------------------|--------------------------------------|
| Africa Energy               | Genel Energy            | PetroMatad Limited                   |
| Akva Group                  | Gulf Keystone Petroleum | Petrolal LLC                         |
| Arnarlix                    | HI BidCo AS             | Pilbara Minerals                     |
| Atlantic Sapphire AS        | Hospitality Invest AS   | Pioneer Public Properties Finland Oy |
| Avida Holding AB            | Hunter Group            | Point Resources AS                   |
| Bankers Petroleum Ltd       | Ice Group               | Quant AB                             |
| BKK                         | Idavang A/S             | Questerre Energy Corporation         |
| Borealis Finance            | Instabank               | Rødovre Port Holding A/S             |
| Borr Drilling Limited       | Komplett Bank           | Sakti Global Auto Holdings           |
| Brado AB                    | McDermott International | Sand Hill Petroleum                  |
| Brødboksen                  | MMA Offshore            | SAS                                  |
| Camanchaca                  | Monobank ASA            | Scatec Solar                         |
| DNO ASA                     | Nemaska Lithium         | Scorpio Tankers                      |
| DOFASA                      | Northern Drilling       | Shamaran                             |
| Echo Energy                 | Norwegian Air Shuttle   | Siccar Point Energy                  |
| Eco Atlantic Oil and Gas    | Ocean Yield             | SL Bidco                             |
| Eidesvik Offshore           | Odfjell Drilling        | SpareBank1 Buskerud-Vestfold         |
| Eland Oil & Gas             | Okea AS                 | Sparebanken 1 Østlandet              |
| Embarcadero Maritime II LLC | Ovako AB                | Sparebanken Vest                     |
| Faroe Petroleum             | Pandion Energy          | Veo B.V.                             |
| Filo Mining Corp            | Pareto Bank             | Zwipe AS                             |
| Fortum                      |                         |                                      |

*This overview is updated monthly (this overview is for the period 31.07.2017 – 31.07.2018).*

## Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading ST Regulation § 3-11(4)

### Distribution of recommendations

| Recommendation | % distribution |
|----------------|----------------|
| Buy            | 69 %           |
| Hold           | 26 %           |
| Sell           | 4 %            |

### Distribution of recommendations (transactions\*)

| Recommendation | % distribution |
|----------------|----------------|
| Buy            | 91 %           |
| Hold           | 9 %            |
| Sell           | 0 %            |

\* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 15.08.2018).

## Appendix D

This section applies to research reports prepared by Pareto Securities AB.

### Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

### Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

|                          |                           |                 |                     |
|--------------------------|---------------------------|-----------------|---------------------|
| Aspire                   | Green Landscaping Holding | Powercell       | Sedana Medical      |
| Cibus Nordic Real Estate | Lehto Group               | Magnolia Bostad | ShaM aran Petroleum |
| Climeon                  | Organoclick               | Scibase         | Vostok New Ventures |

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universes:

|                               |                                     |                           |                         |
|-------------------------------|-------------------------------------|---------------------------|-------------------------|
| Africa Oil                    | Cavotec                             | Isofol Medical            | ShaM aran Petroleum     |
| BlackPearl Resources Inc      | Cibus Nordic Real Estate            | Saltängen Property Invest | Tethys Oil              |
| Byggmästare Anders J Ahlström | Delarka Holding                     | SciBase Holding           | Vostok Emerging Finance |
| Byggpartner i Dalarna         | International Petroleum Corporation | Sedana Medical            |                         |

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: None  
*This overview is updated monthly (last updated 14.09.2018).*