

# Eco Atlantic Oil and Gas

## Updated CPR leads to upgrades to our NAV

### New prospects added to the Competent Persons Report leading to upgrades

Eco (Atlantic) have announced there have been 4 new Tertiary prospects added with a total of 186mmboe of gross risked prospective resource including the Hammerhead extension with an >80% chance of success. There is also a new Upper Cretaceous prospect with 135mmboe risked. The CPR validates that the Hammerhead discovery has de-risked the Tertiary prospects on the block. As a result, we are increasing our risked NAV by 20p/sh to 119p/sh.

### Two upcoming drilling catalysts from June

The current plan by the partners includes the drilling of two wells by Q3 '19. The Jethro Prospect is located in the north-eastern part of Orinduik Block. It is a Tertiary age lead and will be the target of the first well drilled by Eco and its partners, planned for mid-June 2019. The Stena Forth drillship will be used for the drilling operations with an estimated net cost to Eco of <US\$7m. If successful, the well will be cased and tested with a view to being a producer. Jethro is a sandstone stratigraphic trap that, based on several seismic attributes, is analogous to the Hammerhead discovery nearby. It is worth 74p/sh to Eco or close to 90p/sh when the Jethro Extension is included. There are a number of candidates for a second well with some of the prospects having >£2/sh of unrisked value.

### CPR updates to existing prospects

The main change to the existing prospects is an increase in the risked volumes of the KB Tertiary prospect as a result of a higher chance of success (28% from 21%) and a higher recoverable volume (350mmboe from 243mmboe) due to a higher gas oil ratio and higher net to gross pay assumption. There was a slight increase in the Jimmy MJ-4 prospect, but all the others remained the same. In total, the risked size of the existing prospects increased to 675mmboe from 627mmboe.

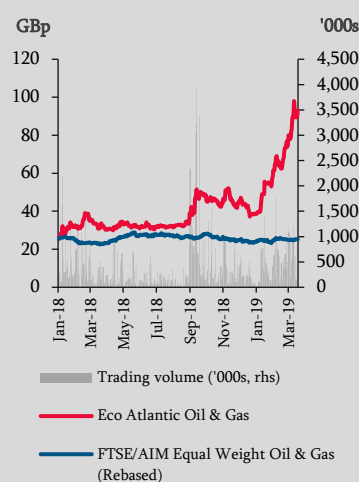
### Valuation sees a ~20% upgrade to risked NAV

We are increasing our risked NAV by 20p/sh to 119p/sh following the new CPR that was released today. The new CPR sees 5 new prospects being added (4 of which are Tertiary which have been de-risked by Exxon's Hammerhead discovery that is thought to extend onto the Eco block) as well as 2 of the existing prospects increasing in size on a risked basis. In total, there has been 369mmboe of gross risked resource added or +59%. We have added the most material prospects to our valuation.

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GICS Sector	Materials
Ticker	AIM:ECO
Market cap 15-Mar-19 (US\$m)	191.9
Share price 15-Mar-19 (GBP)	89.5

Risked NAV	p/sh
Core	8
Guyana exploration	97
Namibia exploration	14
<b>Total NAV</b>	<b>119</b>



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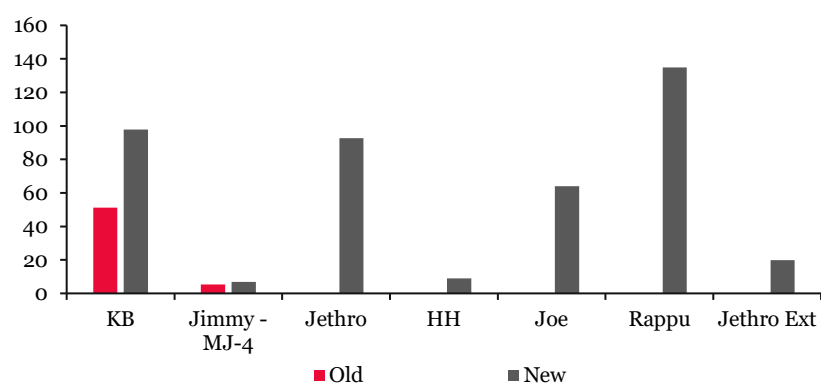
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# Valuation

Asset	Country	Interest	Net		Unrisked	Unrisked	Geological	Commercial	Risked	Risked
			Mmboe	US\$/boe	US\$m	p/sh			CoS	CoS
2019 G&A and Opex					-3.1	-1.4			-3.1	-1.4
Warrants and options					2.0	0.9			2.0	0.9
End '17 cash					19.8	8.8			19.8	8.8
End '17 w/c					0.1	0.0			0.1	0.0
<b>Core NAV</b>					<b>18.8</b>	<b>8.4</b>			<b>18.8</b>	<b>8.4</b>
<b>Exploration</b>										
Osprey	Namibia	58%	163.9	4.7	763.8	339.6	18%	30%	21.1	9.4
Hammerhead/Aurituk	Guyana	15%	1.7	5.2	8.5	3.8	81%	75%	5.2	2.3
Jethroe	Guyana	15%	32.2	5.2	165.7	73.7	43%	75%	46.9	20.9
Jethro Ext	Guyana	15%	6.9	5.2	35.6	15.8	43%	75%	5.8	2.6
Iatuk	Guyana	15%	94.1	5.2	484.5	215.4	22%	33%	30.6	13.6
KD	Guyana	15%	100.1	5.2	515.7	229.3	22%	33%	32.9	14.6
KG	Guyana	15%	95.1	5.2	489.6	217.7	22%	33%	30.9	13.8
Joe	Guyana	15%	22.2	5.2	114.6	50.9	43%	50%	19.3	8.6
Rappu	Guyana	15%	80.3	5.2	413.8	184.0	25%	50%	46.6	20.7
Guy, Sharon, Tamar	Namibia	Varies							10.0	4.4
<b>Exploration NAV</b>					<b>2,991.8</b>	<b>1,330.2</b>			<b>249.4</b>	<b>110.9</b>
<b>Total NAV</b>					<b>3,010.6</b>	<b>1,338.6</b>			<b>268.2</b>	<b>119.2</b>
Other prospects	Guyana	15%	242.8	5	1,250.3	555.9	Varies	Varies	53.1	23.6

Source: H&P estimates, Company Data

## Increase in risked gross prospective resource (mmboe) since last CPR



Source: CPR Report

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## Investment Summary

Eco Atlantic Oil and Gas (Eco) is a frontier exploration focused company with significant potential exploration upside in Guyana and Namibia. It is a lean organisation with a highly experienced management team, has a proven track record of exercising farm-outs, is fully funded for its current planned activity and beyond, has an early mover advantage in its blocks and we think management would sell for the right price.

**The Updated CPR:** Eco (Atlantic) have announced there have been 4 new Tertiary prospects added with a total of 186mmboe of gross risked prospective resource including the Hammerhead extension with an >80% chance of success. There is also a new Upper Cretaceous prospect with 135mmboe risked. The CPR validates that the Hammerhead discovery has de-risked the Tertiary prospects on the block. The Hammerhead discovery is less than 7km east of the Orinduik Block boundary and has proven that the Tertiary section has commercial accumulations of hydrocarbons in stratigraphic sand traps. The bulk of the Tertiary age Hammerhead accumulation is on the neighbouring Stabroek Block, but an estimated 1kmsq is on the Orinduik Block and thus becomes an excellent analog for Tertiary age leads and prospects.

**Valuation:** Our risked NAV for Eco is 119p/sh, which includes a core value of 8.4p/sh (cash/farm-in proceeds), with the remainder based on risked exploration of the main prospects recently updated in the company CPR. Eco is funded for its two exploration wells and will have cash left over for further exploration. Given the exploration only nature of the company, comparative multiple valuations aren't appropriate.

**Good time to invest in exploration:** We believe that it is a favourable time to invest in exploration, as the lack of drilling success in the last 5 years has meant that investor sentiment is low at a time when major oil companies are looking to rebuild exploration portfolios after huge cuts in spending. Lower costs of obtaining exploration acreage and drilling creates a better value proposition. Exploration gives investors exposure to uncorrelated returns that aren't available from US E&Ps. Exploration success rates should improve as operators are now more capital disciplined forcing them to only drill their best wells.

**What are explorers chasing:** Liza (Guyana) and Lula (Brazil) are examples of the huge value creation that is possible through frontier exploration. Exxon has discovered >4Bboe in Guyana to date and may still find significantly more. Assuming an un-risked valuation of ~\$5/boe - there is potentially \$20B+ of value, which was de-risked by an initial well that likely cost ~\$100mm.

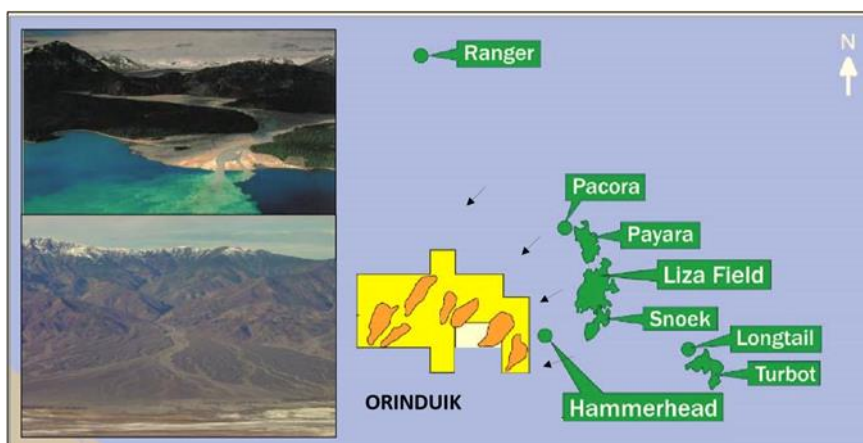
**Location, location, location:** There have been many non-commercial wells drilled in both Namibia and the Guiana-Suriname basin so being in the right place is important. We see Eco as well positioned in both basins. In Guyana it is up dip of and on trend with the significant discoveries made by Exxon next door. In Namibia it was an early mover, allowing it access to its preferred blocks and its blocks can be de-risked by wells on adjacent blocks over the next year.

**Plenty of catalysts:** we see a catalyst rich next 12 months for the stock, which is important for exploration companies to get credit from the market. Eco's performance year to date is testament to that. The main catalysts surround farm-out activity, drilling near its blocks, de-risking of Eco's prospects, a potential new country entry and ultimately drilling of its prospects in 2019.

### Eco Atlantic Guyana Overview

The company currently has a 40% working interest in the Orinduik licence, with Tullow Oil owning the remaining 60% and acting as operator. Eco Atlantic is in the process of farming down its 40% interest to TOTAL, which will see Eco reduce its working interest to 15%, once necessary approvals are granted. This massive 1,800sqkm licence is in the Guyana-Suriname Basin, up dip from Exxon's Stabroek licence where, to date, nine discoveries have been made with the combined gross recoverable resource being >4Bboe. The first well is planned for Q3'19.

The Orinduik licence is located on the shelf and so in areas will have relatively shallow water depths of approximately 70m compared to Exxon's licence where the water depth is >1,500m. Eco's licence is located up dip of the Liza discoveries and it is believed that the oil will have migrated from the source of the Exxon's discoveries up through Eco's licence and will hopefully be trapped in structures on the licence.



Source: Company Presentation

As might be expected, the industry is once again excited by the region. To this end, Eco announced in September 2017 a farm-out deal. TOTAL took an option to acquire a 25% stake in the Orinduik licence, reducing Eco's stake to 15% from 40%. TOTAL paid an option fee of US\$1mm and then, subject to the processing of the 3D seismic data (which was completed and delivered in September '18), had 120 days to exercise the option but did so almost immediately, netting Eco a further cash payment of US\$12.5mm by YE'18.

The announced updated CPR shows an increase in Gross Prospective Resources P50 (Best) to 3,981 MMBOE (from previous 2,913 MMBOE). Following the completion of the processing of 3D seismic and the reported regional Tertiary aged discoveries, including Exxon's Hammerhead discovery, the company and its partners (Tullow – 60% Operator, Total – 25%, Eco – 15%) have completed a further extensive evaluation and risking exercise on the leads and targets on the Orinduik Block following review and analysis of this additional information.

The updated CPR estimates an increase in Gross Unrisked Prospective Resources P50 (Best) to 3,981.9 MMBOE on the Block, implying Net (15%) 597.3 MMBOE to Eco, identified across a total of 15 Leads on the Orinduik Block.

The first drill target scheduled for June is Jethro, on which Gustavson has firmed up their estimate to contain 214.5 MMBOE (P50) at 43.2% Chance of Success. The partners are in the process of approving a second well and we believe the risking will be in the same range as for Jethro.

## Orinduik CPR – March 2019

Lead (1 of 3)	KB	DJ	KG	Kumaka - KD	IatukD
Trap (%)	70	70	80	80	80
Seal (%)	50	40	40	40	40
Reservoir (%)	80	75	70	70	70
Presence of HC (%)	100	100	100	100	100
<b>Overall</b>	<b>28.0%</b>	<b>21.0%</b>	<b>22.4%</b>	<b>22.4%</b>	<b>22.4%</b>
P50 Gross Unrisked Prospective Resources (mmboe)	349.5	150	633.5	667.5	627.2
<b>Risked size</b>	<b>98</b>	<b>32</b>	<b>142</b>	<b>150</b>	<b>140</b>

Lead (2 of 3)	KC	Amatuk	MJ-3	Jimmy - MJ-4	KC-A
Trap (%)	80	80	80	80	80
Seal (%)	40	40	40	40	35
Reservoir (%)	60	60	60	60	60
Presence of HC (%)	100	100	100	100	100
<b>Overall</b>	<b>19.2%</b>	<b>19.2%</b>	<b>19.2%</b>	<b>19.2%</b>	<b>16.8%</b>
P50 Gross Unrisked Prospective Resources (mmboe)	41.1	228.3	230.1	35.5	63.5
<b>Risked size</b>	<b>8</b>	<b>44</b>	<b>44</b>	<b>7</b>	<b>11</b>

Lead (3 of 3)	Jethro	HH	Joe	Rappu	Jethro Ext
Trap (%)	90	90	90	70	90
Seal (%)	60	90	60	60	60
Reservoir (%)	80	100	80	60	80
Presence of HC (%)	100	100	100	100	100
<b>Overall</b>	<b>43.2%</b>	<b>81.0%</b>	<b>43.2%</b>	<b>25.2%</b>	<b>43.2%</b>
P50 Gross Unrisked Prospective Resources (mmboe)	214.5	11	148.3	535.6	46.1
<b>Risked size</b>	<b>93</b>	<b>9</b>	<b>64</b>	<b>135</b>	<b>20</b>

Source: Eco Atlantic March 2019 CPR

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