2020—Supercycle Déjà Vu?

Oil & Gas Advisors

Giving You the Energy to Succeed

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The last time the Supermajors undertook a round of redundancies on the scale that has been outlined, and reduced investment by as much as is being suggested, it sparked a growth in independent oil & gas companies and sowed the seeds for the first oil supercycle.

In this context, the growth and maturation of the independent oil & gas sector in the UK has been a microcosm of the wider global trend.

The UK Government supported this transition by adapting licencing regulations and legislation, promoting participation from the newly formed more entrepreneurial new entrants.

The current environment is reminiscent of the late 90s: growing underinvestment in the global upstream sector, looming Supermajor redundancies and rising access to liquidity. However, only some of these ingredients are present, all of the required ingredients for a second supercycle are already present.

We are likely to be further along the path of the second supercycle than people believe. The last remaining ingredient, investment, is still pending, but signs are positive.

Introduction

Given the explosion in independent companies participating in the global oil & gas segment over the last 20, there is a question of why we have chosen to focus on the United Kingdom ("UK") oil & gas segment (the "UK Sector").

While there are a number of reasons, one of the primary drivers is the stark contrast in treatment and number of independent operators before 2000, and after.

The UK Sector had relatively low independent participation before 2000, but the subsequent expansion thereafter reversed the fortunes of what was, at that time, a declining segment.

The obvious question is why the focus on Independents doesn't study the North American oil & gas sector, which is dominated by independents?

It is for this exact reason, that it is has always been dominated by Independents, which makes it difficult to identify clearly the benefits that can accrue to Independents' increasing participation.

It is also key to recognise that a lot of this growth in the Independents' participation has only been made possible due to the access to cutting edge technology, world scale services and, perhaps more importantly, access to liquidity from equity and debt investors.

So to understand where we are now, and where the oil & gas segment may be heading next, it might be helpful to understand some of the background, such as:

1. how the Independents transformed the UK oil & gas sector;
2. what 2008's global financial crisis taught us;
3. how the debt and equity markets supported growth initially, then withdrew; and
4. what this could mean for the future.

There is little doubt that the landscape for oil and gas production in the UK, especially in the offshore sector in the North Sea, has changed significantly since the 1970s, some of which the Supermajors directly and indirectly can claim a measure of responsibility for.

The emergence of equity investor participation, however, was the catalyst that accelerated the increased dynamism in the UK Sector.

The UK Sector's increased exposure to the financial markets revived the its fortunes but also created inventor cyclicality to a sector that was already cyclical in nature.

As a consequence of the increased participation of fungible investors exposed the UK Sector to the impact of 2008's global financial crisis ("GFC"), not only through the modest retrenchment in oil prices, but also in the liquidity drought that was created in its wake.

While this was largely played out by 2014, the "black swan" oil price crash in 2015 (the "2015 Crash") sent what was then flatlining or sluggish investment in the UK Sector into freefall, with the smaller end of the sector bearing the brunt of the impact.

Again, just as investment in the oil & gas sector was emerging from its reached its nadir, the sector was hit by the second "black swan" event in the shape of the Covid-19 induced pullback in liquidity.

Currently, we have a significant similarities between where we have been historically, and where we are now. We have a situation where Supermajors looking to make redundancies (just as in the late 90s), there has been a pull back in investment (to levels not seen since the early 2000s) and equity investor participation is at an all time low.

All in all, there is a strong sense of déjà vu.

A Brief, and Selective, History of the UK Sector

Background

The landscape for oil and gas production in the UK (the UK current licence areas and offshore extent is shown in the following map) has changed significantly since the 1970s when the landscape, even onshore, was dominated by the large international oil companies (the "Supermajors"), government and quasi-government National Oil Companies ("NOCs"), in what then required cutting-edge drilling, completion and operating procedures, especially against the backdrop of the relatively low oil price.

It is worth noting that any company that is not a Supermajor or an NOC we deemed to be an "Independent;" that means that there is considerable range between the smallest and the largest companies (<$1mm to >$10bn).

Scale was required in the 70s to allow the cost of development to be borne. In fact BP, then a government agency, ostensibly led the charge in the North Sea as a loss leader.

Until the GFC in 2008, investment in the UK North Sea was buoyed by the recovery in the oil price from its lows of 1999, making smaller operations more profitable. However, this has not been the sole factor. There have been numerous developments that have combined to create the UK Sector as it is today.

Unlike in the US where the landscape has always been dominated by Independents (by count, if not by size), the UK Sector's Independent count was ostensibly dominated by Enterprise (acquired by Shell) and Lasmo (acquired by Eni).

Lasmo and Enterpise were the pioneers of what became a trend in the UK Sector, i.e., smaller more agile companies better able to exploit rapid changes in regional politics and technology, and given their lower operating base and access to technology and experience, better positioned to develop smaller fields.

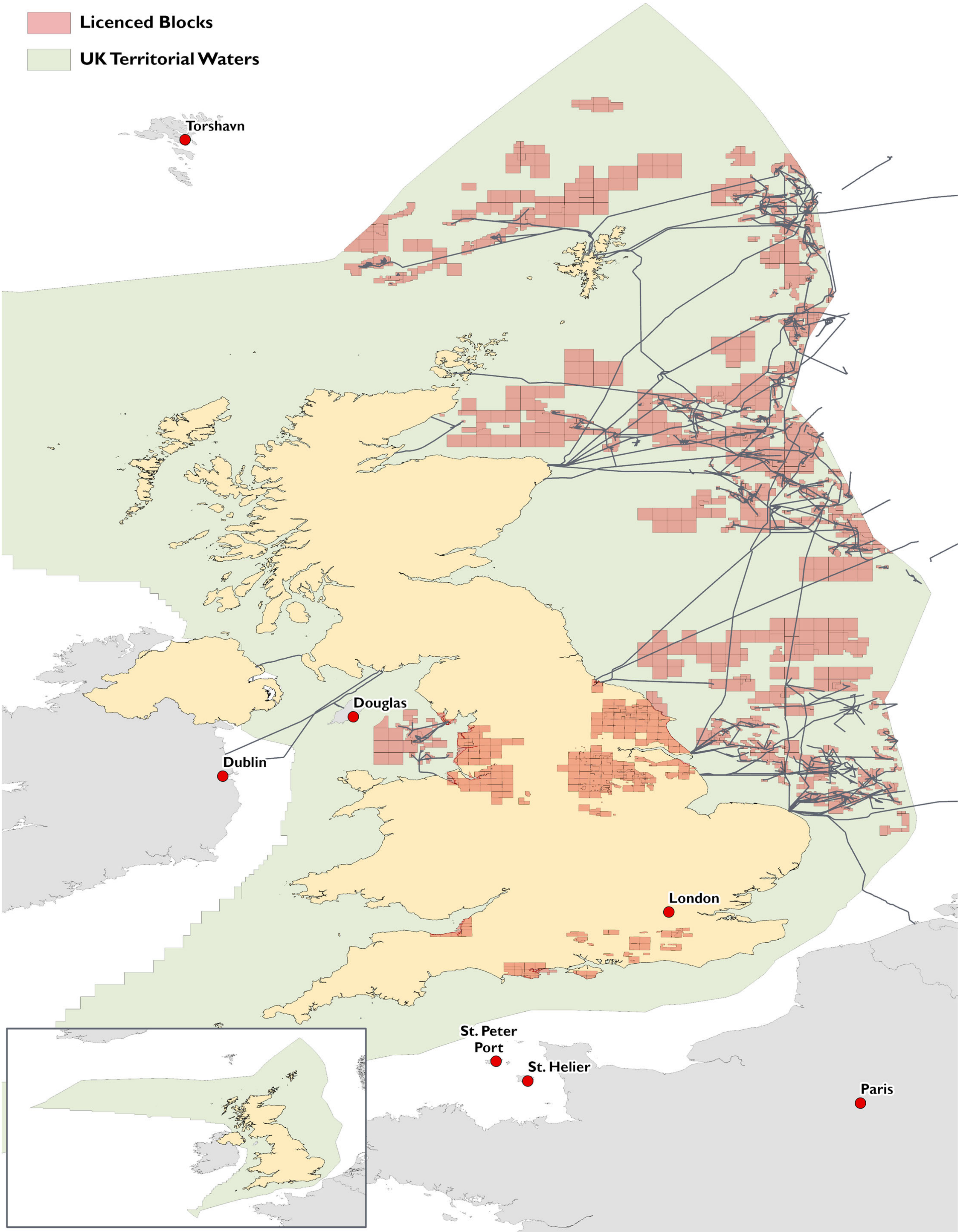
In many ways Enterprise and Lasmo were archetypal of the UK's Independents, less sensitive to the political climate that burdens the Supermajors, who often operate in the glare of the media spotlight, and are highly sensitive to criticism, whether justified or unjustified.

Furthermore, the lower managerial inertia in the Independents meant that companies like Lasmo and Enterprise were often early adopters of new technologies and able to make investment decisions quickly. This produced spectacular results for Lasmo and Enterprise, but it had its pitfalls too, as evidenced by Lasmo's disastrous Venezuelan sojourn, which almost sunk it.

As we highlighted previously, Enterprise and Lasmo were the prototype of the modern day Independent operating in the UK Sector.

Their success in making returns for their investor bases, was a key contributory factor to the ongoing success of the current slew of Independent companies in the UK. However, Lasmo and Enterprise weren't the sole reason for the success of the UK in attracting a buoyant

Figure — UK Onshore & Offshore Licence Areas



Source: Oil & Gas Authprity, ERSI & OGA data independent sector, the UK Government made a significant contribution too.

In the Beginning…

When we consider the history of the UK oil & gas sector as it exists in its current guise, it is helpful to understand the factors that led to the birth and development of the Independents, as they have had the most significant impact on the UK Sector since its discovery in the 70s.

To do this, we have to consider the number of factors that have unified at a singular point in time to create a unique opportunity, whose success has been replicated from Nigeria to Colombia and Indonesia.

Factor 1: Expertise Kicked Out of the Nest

Part 1 – The Chase for Returns

Rather perversely, one of the first contributory factors was the Supermajors' excessive focus on returns at the expense of strategic stability in the late 90s' low-oil-price environment (see chart).

Brent Oil Price ($/bbl)

Source: FactSet & OGA data

By shedding assets and people, exploration, drilling, development and production expertise started to find its way out of the Supermajors in to the wider market, and along with it, a raft of "early retirement" candidates.

The net result was the thinning of two rafts of management; a senior level, with all its experience; and a more junior level, with all its enthusiasm and entrepreneurial drive.

Part 2 – The Chase for Synergies

The wave of returns-focused redundancies was subsequently followed by a wave of mergers between a number of companies, such as BP & Arco, Chevron & Texaco, Exxon & Mobil and Conoco & Phillips.

The subsequent rationalisation in headcount created a second wave of experience, talent and ambition to be released from the Supermajors to be made available to the Independents; this also started a wider trend towards the "virtualisation" of the Supermajors.

These two events, more than any other, revitalised a then flagging UK Sector, as both seasoned and young oil & gas professionals, using the expertise gained at Supermajors, applied their human capital elsewhere, starting their own companies and kick-starting the participation in the UK oil & gas sector by the new wave of Independents.

Factor 2: Guns for Hire

In addition to Factor 1, and more importantly to the reinvigoration of the UK Sector, the number of people with cutting edge problem solving experience, across the E&P lifecycle that could be available for short-term hire on a consulting basis.

The expansion in the range of services available to Independents from specialist companies (the "Service Providers"), gained critical mass, available to anybody who had the funds to retain them.

While the Independents were the first and major beneficiaries of this move, the irony of success of the Service Providers was the fact that the Supermajors, who with their new virtual oil company approach, found that their in-house expertise was no longer enough, requiring them to increasingly draw resources from this nucleus of people, adding further to its successes.

Factor 3: No Really, Big is Beautiful

After this upheaval, the Supermajors reassessed their respective priorities, and decided that management time would be better spent on larger and larger projects, reasoning that mature legacy assets in decline that fell outside a certain criteria would be better off in somebody else's portfolio.

Size, as they say, is relative. The Supermajors disposed of a number of high-profile assets, which was heralded in the UK by BP's sale of Forties in 2003, a trend which has continued to today, with all Supermajors often selling once marquee assets, globally.

In 2000, asset divestments not only provided smaller players with opportunity (dubbed "crumbs from the giants' table"), but it also sent a message to host governments, that they were no longer the only game in town, and that big oil was "mobile."

Factor 4: Money Always Talks

As we mentioned previously (Factor 2: Guns for Hire), the fact that the Supermajors were also increasingly looking outside of their asset base to secure services, provided two additional benefits to the Independents:

1. Growth in independent advisors escalated, allowing the price of the provision of these services to become more competitive; and
2. that the flow of ideas and information generated by the types of technical challenges that Supermajors faced had an outward conduit to the wider market.

Both of these benefits permitted the Independents, such as those operating in the UK, to exploit cutting edge technology at an increasingly competitive rate, growing their technical capabilities without investing in staff heavy teams or capitally intensive equipment.

The effect that this had in advancing the growth of the UK Sector was amplified by the advent of cheaper, higher-powered computing that for modest cost put the kind of technical and financial evaluation capabilities on the Independents' desks that hitherto that had been the trapped in the larger companies with deep enough pockets to buy computers that spread over multiple rooms (yes, that is written correctly).

The rising availability and quality of services, coupled with the falling costs of their provision, meant that such services started to become an achievable reality for Independents, including those in the UK Sector.

Factor 5: Show me the Money

As mentioned previously, by the time Enterprise and Lasmo had been acquired, investors had already developed an appetite for the kind of returns that could be generated by oil & gas investment.

Once these acquisitions were completed, the investment community's interest in the wider oil & gas sector was piqued, but it was the increase in choice of company to invest in, rising oil price environment and increased understanding of the technical demands that made the appetite for oil & gas investment all the greater, gathering pace throughout the 90s in to the 2000s.

In the UK Sector, investors befitted from investment in Independents such as Edinburgh (acquired by Oranje-Nassau), Paladin (Talisman Energy), Premier, Tullow and Dana (Korean National Oil Company), whose initial development and funding was almost exclusively achieved though equity raised on London Stock Exchange's Alternative Investment Market ("AIM").

These successes have ensured that the UK Sector, which is now dominated by Independents (by count), will continue to have interest from investors, who are seeking a repetition of those returns, albeit on a case by case basis.

Factor 6 – Levelling the Playing Field

Once the UK Government believed that technical competency existed outside of the Supermajors, and that there was an eagerness to effectively work a licence once awarded, it started to approve increasing numbers of Independents to participate in its licencing rounds.

The Department of Energy & Climate Change's ("DECC's") UK Promote initiative, launched in 2000, was specifically designed for the Independents and attracted significant numbers of new entrants. DECC was the UK Government entity responsible for granting UK licences, a role that has now been assumed by the Oil & Gas Authority ("OGA") on its formation in 2015.

DECC's second initiative in 2001 saw it address the issue of operators hoarding discoveries and not developing them, through the Fallow Fields Initiative.

Under the Fallow Fields Initiative, DECC considered all blocks where there were discoveries as being Fallow if they were not being developed, for whatever reason, whether "banking" the discoveries, for development at a date of their choosing, misalignment within the partnership; failure to meet economic criteria; other commercial barriers.

Where licences that were deemed to be Fallow the incumbent licence holders were compelled to submit a work plan to develop the discoveries on the licence, or relinquish their respective interest for the licence to be offered out for relicensing.

In undertaking these two initiatives, DECC levelled the playing field, and gave all technically qualified operators equal access to the North Sea's potential. Apart from areas where both technical competence and deep pockets are required, such as West of Shetland, the Supermajors were replaced by smaller more agile companies that are as technically astute.

The OGA has continued the trajectory started by DECC, with additional initiatives aimed at not only lowering the costs associated with development, such as MER (Maximising Economic Recovery) in 2016, which obliges all participants, to work together to maximise the expected net value of economically recoverable petroleum, as well as the "Innovate" licence, which provides participants with lower cost obligations.

UK Independent Sector Maturing

As we have highlighted, the UK Sector owes a lot to the Supermajors, with the excessive cull of staff in the late 90's creating a new breed of entrepreneurs, technically astute, financially savvy and able to execute complicated projects with assistance of expertise that is available on a consulting day rate or turnkey basis.

The outsourcing of drilling and seismic, and the subsequent impact that it had on the cost of securing their services, coupled with the evolution of cheaper technology, has permitted the number of companies participating in the UK Sector to soar.

How the Independents have approached the UK Sector is varied. Some are looking to build portfolios of interests, executing so called "asset grabs," such as Serica, while others, such as the now defunct Xcite Energy or Lansdowne Oil & Gas, pursue a nurture, build and develop strategy over a single asset or region.

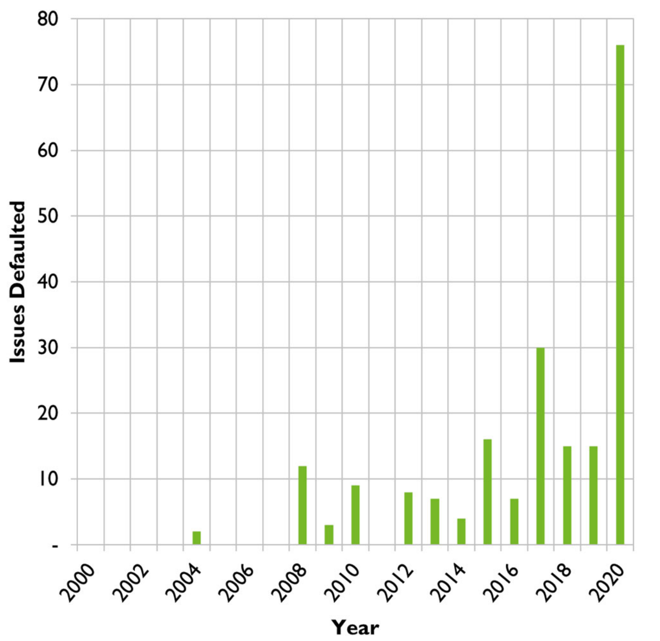
While our specific focus in this article is the UK Sector, it is perhaps worth reminding ourselves that what started in the UK North Sea has been successfully exported worldwide.

The successes of the revitalisation of the North Sea mature oil province has been emulated in places such as Nigeria, Colombia and most recently Indonesia.

The Liquidity Drought

As can be seen below in the number of defaults in oil & gas fixed income since 2000 (see following chart), the impact on oil & gas is marked following the GFC in 2008, accelerated following the first "black swan" oil price event in 2015.

Oil & Gas Defaults



Source: FactSet & OGA data

The impact of 2015's oil price event, was only really felt in 2017 as hedging positions were unwound, and while 2018 and 2019 were clearly not as disruptive to the oil & gas sector, the impact of Covid-19's "black swan" event in 2020 is clear to see.

Cumulatively, these effects have resulted in the withdrawal of liquidity. This has been compounded by secondary issues gaining greater prominence, such as the rise of activist ESG investing, increasingly dominating investors' thinking.

This has created a situation where projects have been scaled back, sometimes to sub-optimum levels, leading to underperformance by management teams and in some cases, where access to development capital has been impossible, forced mergers at heavily discounted values.

In this respect, the poster child for being in an oil & gas liquidity drought has been London listed Premier Oil (PMO-GB). Its recent deal with Chryasor, where the latter is reversing in to the Premier Oil, due primarily to the weakness in PMO's valuation due to its debt burden.

The price of the transaction has been poor for equity holders, and comes at the end of what has been a series of difficult episodes, but because of the extent of debt on its balance sheet, it has had few options open to it, and the lack of flexibility has meant that a better deal for equity holders is illusive.

The UK – the Centre for International Oil & Gas Finance

While the GFC saw a pause in the growth of Independents, over the same period there was an acceleration in the role that London plays in financing international oil & gas projects.

Traditionally, United States ("US") based investors supported Independents in their time zone or world scale, meaning that anything in North or South America, or project net present values ("NPVs") >$1.5bn would be financed in the US, with London financing the remainder.

The landscape, however, has changed significantly, with the US financing market increasingly applying a size limit to the geographies that it traditionally financed, with companies with a value of less than ~$2.5bn, or projects below $500mm struggling to find finance.

London, however, has emerged as a premier financing location for projects globally, including those in the US. This pre-eminence wasn't always the case. In the early 70s and 80, London primarily acted as a feeder for US lending banks.

Due to London's growth as a financing centre, and growing maturity of the relationship between investors (debt and equity) and oil & gas professionals, London has become more sophisticated and not only independent of US banking sector in respect of oil & gas, but has re-exported its expertise back in to the US market.

The export of this expertise, along with the London Market's willingness to "price risk," has made London the destination of choice for companies seeking equity financing for high-risk plays, whether it be political risk or technical risk (such as frontier exploration), and creative debt financing for development and production assets.

While this does not directly have an impact on the UK focused oil & gas companies, the fact that the UK market sees an increasing number of transactions, means that it is better informed and therefore able to identify technically compelling investments, albeit significant differences between what debt and equity investors look for.

As a consequence, there is still money flowing in to London for financing investment in oil & gas, but it also means, unfortunately, that the UK oil & gas sector, including Independents, have to compete for funds against projects worldwide, where returns can be significantly greater, commensurate with the risks.

2021 — Is the Oil & Gas Sector in Trouble?

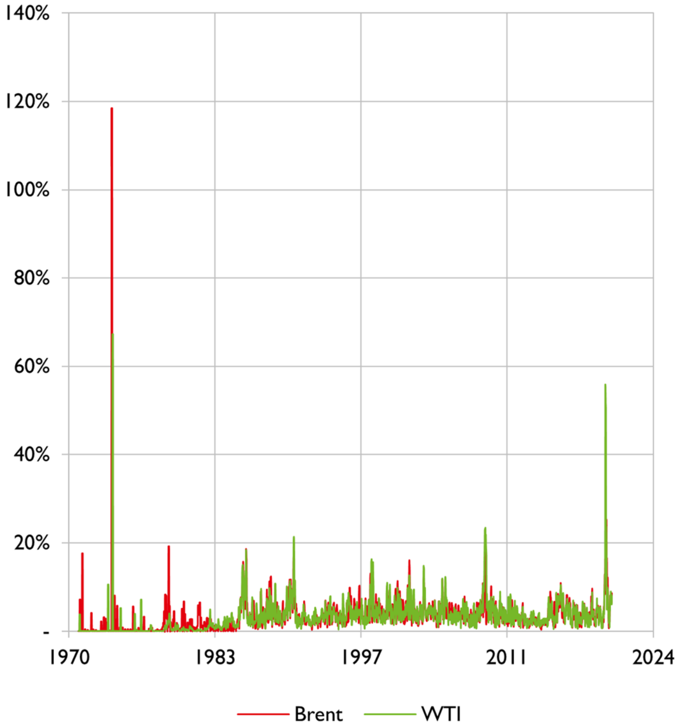
Given the rise in ESG investing, siding against oil & gas, a situation has been created where, irrespective of the attractiveness of the returns, there is a an net outflow of investment funds from teh sector, further shrinking the pool of liquidity that started to shrink post the GFC.

While ESG's countenance against resources plays has been unhelpful, it has been exacerbated since 2015's oil price crash, as investors have become wary of increasingly volatile (see following chart).

Does this mean that oil & gas investment is dying out, and that the sector is in trouble? This is the essential question for all participants in the sector, both operating and financial alike.

While the liquidity drought that started in 2008 was a headwind for access to liquidity some Independents, governments have sought to gain greater access to the oil & gas profitability, which has also undermined the

Oil & Gas Price Volatility (%)



Source: FactSet & OGA data

attractiveness of investment. In the UK Sector, the UK Treasury has made numerous changes to the North Sea tax regime.

While the UK's variations to the tax regime were firstly regressive, before they were reversed, they nevertheless had a deadening effect on the momentum gained from the Oil & Gas Authority's initiatives.

Given that the second raft of changes were supportive, the question arises as to why this reversal was not accompanied by a similarly positive impact on investment?

As an oil company, it is difficult to make a decision on a long term investment if you have an operating environment that changes frequently and without significant notice, especially where investment and payback periods can often in excess of 5 years.

Outside of commodity prices, which are a know cyclical factor, regulatory volatility, or the perception of regulatory volatility, is the single most erosive factor affecting confidence in sanctioning projects, not only for companies seeking to make an investment, but also the investors and credit providers that decide where the much needed capital is directed. The further out one has to project before the project is net cash positive, the more erosive to perceived value and confidence regulatory volatility becomes.

Against this backdrop, there is also the problematic issue of operating costs. Europe is not a cheap place to operate, a situation compounded but the extent of obligatory regulations that must be complied with.

In view of the number of Independents in the UK Sector, it is unsurprising that the current outlook for the UK capital markets (both equity and debt) will have a significant effect on the outlook for the growth in the UK Sector.

Given the extent of London's role in financing oil & gas, what some might opine as being a local issue for the UK Sector alone, is actually more widely applicable.

The UK Sector, amongst the Independents at least, is caught in a liquidity drought, which has been highlighted to an extent by the number of projects suffering development delays and, more significantly, by the latest round of consolidations.

This liquidity drought is not universal, there is still liquidity available for those companies that have balanced or cash generative portfolios.

Valuations of the Independents listed on the London market are trading at significant discounts to their respective assets' NPV. Typically, debt adjusted market value trades at between 30—50% of the net asset values.

This is due in part to the fact that equity investors (rightly) believe debt funding is more difficult to achieve, and that asset leverage rates (the amount you can borrow versus the overall value of the asset) are declining, resulting in a greater proportion of the funding to come from either equity or other funding sources, such as farmins or asset sales.

Consequently, asking whether the sector is in trouble is not an easy question to answer, as it depends on the time frame.

In the short term, the prognosis for the sector is sporadic, weighed down by regulatory uncertainty and the inability to fund development projects due to shortages in liquidity, which in and of itself is a vicious circle.

This notwithstanding, we believe that the further out you look, the prospects become more optimistic. In the UK, the Oil & Gas Authority's continued drive to unlock the potential remaining in the UK Sector, coupled with a more commercially sensitive UK Treasury working in tandem with the Oil & Gas Authority, to create an environment where, although the liquidity constraints are hampering immediate progress, there is some pockets of improving confidence.

That confidence, however, is fragile. Any subsequent changes to the regulatory or fiscal environment that undermines the competitiveness of the UK Sector will have an exacerbated impact on that confidence, arresting its growth and potentially putting it in to terminal decline, especially as both oil & gas companies and investors have a wide choice of locations in which to invest.

2020, All That is Old in New Again

As we look back at what 2020 has left, there is much to ponder. One thing that stands out for us, however, that 2020 has borne a striking resemblance to 1998. The tech and biotech sectors have taken centre stage, oil companies have become preoccupied with something other than oil & gas, and the "old economy" sectors have been dismissed as dirty and largely passe.

Supermajor Redundancies

As we have seen, 1990's ejection of expertise from the Supermajors helped spark a boom in the growth of Independent sector.

Fast forward to 2020, nearly all the Supermajors have announced redundancies, the latest being Exxon. Supermajors look through the cycle when considering the need for staffing levels, that they have jumped on Covid-19 as a reason is, arguably, convenience.

Nevertheless, the outcome is the same, some will be offered early retirement, others just remaindered, and as happened in the 90s, the executive management, being disconnected from the underlying business, will fire too many, too deeply, and make available considerable experience for the Independent sector, but also weaken their own management pool for the future; witness both BP and RDS, whose executive teams are a shadow of their former selves.

What is clear, however, is that the Independent sector will be a net beneficiary, as this experience, too young for bad golf and too old to start again, will seek to establish their own E&P companies, leveraging their experience.

Supply Side Attrition

Unlike in 1999/2000, the oil & gas sector has endured 2 "black swan" events in 5 years, the first being 2015's oil price crash, and just as the sector was recovering, this 2020's Covid-19 pandemic.

That said, there is a lot of commonality between today and 20 years ago, not least the Supermajors looking to cull headcount, but also the current status of the oil & gas markets.

These "black swan" events rarely have an impact on the immediate supply outlook, as has been proven over time. However, with volatility comes uncertainty on what the direction the oil price will be; will it sawtooth up, down or tread water.

Given this uncertainty, it is inevitable that all projects, especially the larger ones that often have longer-term investment and payback horizons, are scaled back to minimise risk capital, or delayed until the last possible moment before sanction.

The net result of this is that timings are pushed further out, impacting supply expectations. In these circumstances there is unlikely meaningful investment in expanding production, or upgrading assets by executing medium term deliverability projects. Instead, production increases will be met by pulling existing producing reservoirs harder, or sweating existing infrastructure harder.

Reservoir deliverability, however, is a "zero sum game," meaning that what you take today, will not be delivered in the future, and depending on the reservoir, may actually result in an acceleration in the natural production decline; we term this "forward supply attrition."

This means that in the future, supply is likely to fall faster than would have been planned for, which in turn will place greater reliance on swing producers.

As the proportion supplied by the swing producers grows, however, the fear will become how much headroom remains in swing producers' slates, giving rise to a fear of a supply-side squeeze.

Budding Entrepreneurs & Backers Willing to Back

As we have highlighted, the pending headcount reductions in Supermajors will create a new generation of oil & gas entrepreneurs, which will look to establish their own oil & gas companies.

Oil & gas, however, is an expensive business, beyond what can be afforded individually. Consequently, investors will need to be found, who, depending on what stage the underlying asset is at, will be either be equity, debt or a combination of the two.

Since 2015, there has been an increasingly muted appetite to investment in oil & gas for projects at the earlier stages of the E&P cycle, with the shift om focus towards development and production.

This has been compounded by the growth in ESG investing, as activists push for divestment from oil & gas. Net/net, therefore, the current investment climate is reminiscent of the early 2000s, with the key difference being there is an active and ready pool of investments to choose from.

Given the need to search of growth, and the huge demand that will be required for oil & gas, and their derivatives in any net zero/ESG future, once investors start to believe that the oil prices have a brighter outlook, then the sector is likely to attract a greater range of investors seeking returns, even in the face of ESG concerns.

The Supercycle

With forward supply attrition likely to become an increasing reality as time progresses, the lack of investment in exploration and development projects will exacerbate the issues.

Combine this with the potential range of Democrat policy initiatives aimed at limiting progress oil US oil & gas, and there is could be a situation that just when supply side investment needs to accelerate, it is curtailed yet further.

This has already been highlighted by OPEC, who in its recent outlook suggested that more than $9,900bn will need to be invested by 2045, which if you assume its invested linearly, means $1,980bn ($495bn per year) will be required by 2025.

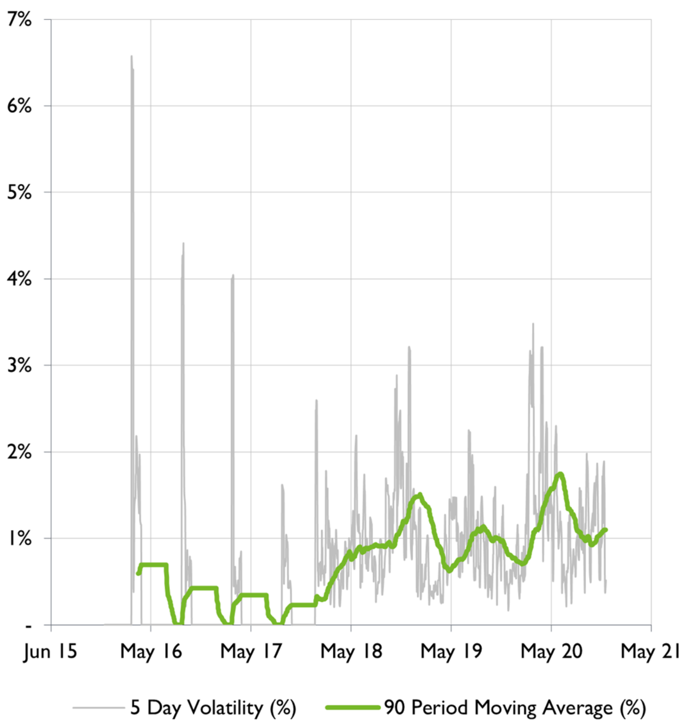
This needs to be compared with the $502bn invested in 2019, and given that 2020 CapEx programmes have been trimmed by up to 40%, the current OPEC requirement is significantly above current activity levels.

It is likely that this will be exacerbated by the Supermajors' "rush to renewables," which has been driven as much by political posturing as it has by improving the energy mix.

Fears of a supply side squeeze will ultimately feed through to prices. In this respect, the longer dated futures will be the first prices to be impacted, and an uptick in volatility will result.

As the chart below demonstrates, we have started to witness an increase in volatility at the long end of the curve, and while there has been a similar uptick in near term volatility (see chart overleaf).

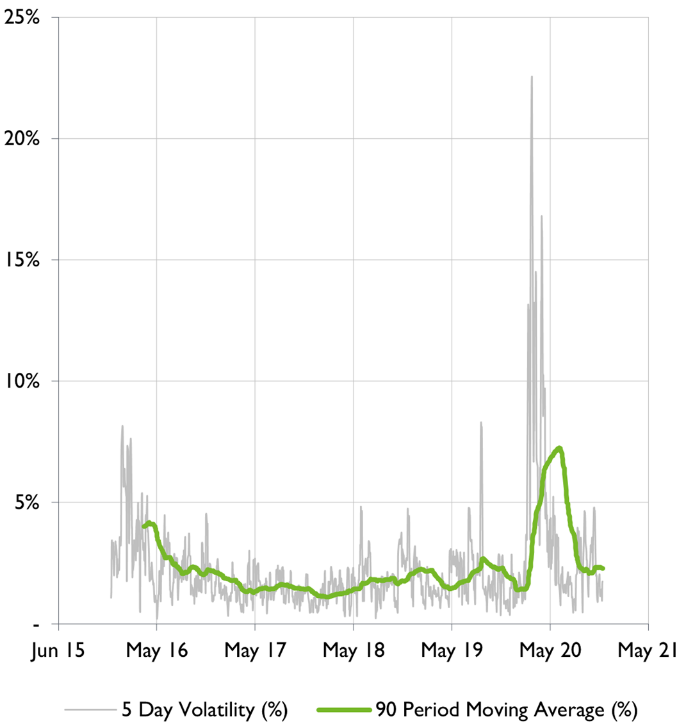
Figure — Brent 86th Month Forward Volatility (%)



Source: iStock & OGA data

That we have seen an increase in volatility at the short end and the long end of the curve, to us suggests that there are two factors driving the oil prices, which at some point will coincide, and through the principal of

Figure — Brent Spot Volatility (%)



Source: iStock & OGA data

superposition, will result in a multiply impact on the oil price.

At this point, the acceleration in the oil price will not be contained by additional production, as supply will lag demand, and the supercycle will begin.

Given the likely extent of forward supply attrition, we believe that the supercycle could see higher prices, for longer.

Conclusions

Collectively, all of these factors should be supportive of a second wave of investment ahead of the supercycle, meaning that the Supermajors may just have inadvertently, sown the seed for the next oil & gas Independent boom.

The current environment is reminiscent of the late 90s: growing underinvestment and looming Supermajor redundancies.

While only a proportion of the ingredients required for an expansion in the Independent sector are present, all of the required ingredients for a second supercycle are already present.

We are likely to be further along the path of the second supercycle than people believe. The last remaining ingredient, investment, is still pending, but signs are positive.

OGA Oil & Gas Advisors

Giving You the Energy to Succeed

Email: info@og-advisors.com

Tel: (UK): +44 203 624 2385
(US): +1 281 404 1734
(HK): +852 5 808 8614

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