Oil & Gas Research

Non-Independent Research
*Paid for research, MiFID II Exempt

Eco (Atlantic) Oil & Gas

ECO LN **STRONG BUY: TP 110p**

16 June 2020

Stock Data

Ticker	ECO LN
Share Price:	24.0p
Market Cap:	£44.1m
Upside from current price:	358%

Source: Bloomberg (prior trading day's close)

Transformational resource potential

The past 18 months has seen Eco (Atlantic) Oil & Gas ("Eco" or "the Company") emerge as a hugely successful explorer in frontier regions. Two large discoveries offshore Guyana made in 2019 will be followed by two further wells planned for next year, targeting the prolific Cretaceous formation at its flagship Orinduik Block. Drilling offshore Namibia is also due to accelerate this year, which we believe could directly de-risk the Company's considerable acreage position in the region. We therefore initiate coverage with a STRONG BUY rating, setting a 110p/share Target Price.

Company Description

Eco (Atlantic) Oil and Gas is an international oil and gas exploration and development company with a strategic portfolio of offshore projects in Guyana (South America) and Namibia (Africa) in partnership with major oil companies and large independents.

Orinduik Block misunderstood by the market

In our view, the sell down of Eco's stock late last year was unwarranted and presents a significant opportunity for investors to take a position in the Company at a deep discount to NAV. Whilst analysis confirmed the Tertiary formation at Orinduik contains heavy, sour crude; the reservoir is high-quality, over-pressured and at a high well head temperature, all of which will help with the mobility of the oil. Eco has since highlighted that the crude tested to date appears not dissimilar to the commercial heavy crudes currently in production in the North Sea, Gulf of Mexico, the Campos Basin in Brazil, Venezuela and Angola. This is supported by the commentary from Hess on its Tertiary Hammerhead discovery, which is heavier than the Cretaceous discoveries on the Stabroek block, offshore Guyana.

Cretaceous drilling will drive Eco's valuation next year

However more importantly in our view, is the transformational potential of the Cretaceous formation which has yielded multi-billion-barrel light sweet crude in adjacent fields and will be targeted by Eco and its partners at Orinduik next year. Given the substantially de-risked nature of the play, we would expect another resurgence in the Company's valuation from current subdued levels.

Offshore Namibia has emerged as one of the hottest regions

Whilst offshore Namibia has had a somewhat chequered drilling history, recent confirmation of a working petroleum system and the region's underexplored status, has led to a land grab from many of the world's leading explorers. The next 18 months will see up to five exploration wells drilled on behalf of Exxon, Total, Maurel and Prom, Shell, and Galp, and we would expect further interest in Eco's enviable portfolio of licences in a success case.

We initiate coverage with a STRONG BUY rating and 110p/share TP

In our view, Eco's shares offer investors a compelling entry point into a technically adept explorer, with a transformational asset base. The Company has successfully demonstrated that it has the ability to unlock new basins, securing first mover advantage and attracting blue-chip partners. With significant de-risked activity planned offshore Guyana next year, alongside an enviable portfolio of prospects offshore Namibia, we firmly place Eco within our STRONG BUY list, setting a 110p/share price target.

Research

Sam Wahab
+44 20 3470 0473
Sam.wahab@spangel.co.uk

Sales

Richard Parlons
+44 20 3470 0472

Abigail Wayne
+44 20 3470 0534

Rob Rees
+44 20 3470 0535

CONTENTS

Transformational resource potential

Geologically and geographically diversified

Eco has successfully executed a strategy of capitalising on attractive geologically diversified regions with multi-billion-barrel potential. Adopting a first mover advantage approach has ensured that the Company has picked up large acreage positions in Guyana and Namibia, subsequently using its technical experience and network to attract industry leading partners to support drilling activity.

Despite a challenging market backdrop, both regions will see accelerated activity over the next 18 months, directly through Eco drilling offshore Guyana, and indirectly through adjacent drilling offshore Namibia, and potential further partnering in Eco's acreage.

Latest CPR underlines significant resource potential

Following the success of Eco's initial two-well exploration programme offshore Guyana, the Company and its partners issued an updated CPR in February 2020. The report confirmed a significant (29%) increase in gross prospective resources to 5,141MMboe (771MMboe net to Eco) from previous estimate of 3,981MMboe in March 2019.

The report identified 22 prospects on the Orinduik Block including 11 leads in the Upper Cretaceous horizon. The majority of the project leads have over a 30% or better Chance of Success, enhanced by the discovery of light oil on the Kanuku Block to the south of Orinduik.

Lead	Gross Unrisked Prospective Oil Resources (P50) MMBOE	Risk POS%
Jethro	208.3	100%
Hammerhead	15	81%
Joe	104.4	100%
Jethro Exit	53.8	43%
Jimmy	68.4	65%
Jethro Chan	137.3	42%
Alice	196.7	31%
Kurty U	42.8	30%
Kurty L	35.8	30%
Jethro KW	158.5	34%
Jethro West	183.8	34%
TOTAL TERTIARY	**1,204.8**	
KB	339.6	32%
Rappu	500.1	35%
DJ	173.9	34%
KG	724.7	31%
Amalia/Kumake	775.8	32%
Latuk-D	725.3	31%
KC	47.5	26%
Amatuk	267.3	29%
MU-3	263.5	29%
KC-A	73.8	26%
EriKat	45.1	31%
TOTAL CRETACIOUS	**3,936.6**	

Following the Company's play-opening drilling campaign, leads in the Tertiary aged section are currently estimated to contain 1.2bnbbls, however the near term value driver in our view, will stem from the Cretaceous section, which is estimated to contain up to 4bnbbls and will be the focus of Eco's fully funded 2021 drilling programme.

Whilst not confirmed, we expect Eco and its partners to focus on two targets in the Cretaceous horizon (Amaila/Kumaka and Iatuk-D), which have been identified as containing over 725MMboe each.

Cretaceous drilling in Guyana key to transformational upside

Underlining the significant near-term upside potential of Eco's Cretaceous acreage, our valuation of 110p/share includes 78p/share attributed to a proportion of this formation.

The potential held within the Cretaceous is supported by 13 successful wells drilled into the formation by Exxon over the past five years encountering light sweet crude. In addition, results of the January 2020 Carapa-1 exploration well, drilled by Repsol on the Kanuku licence immediately adjacent to the Orinduik Block, encountered light cretaceous oil suggesting a separate source rock to the tertiary aged reservoirs.

Importantly, whilst Repsol confirmed a lower net pay and reservoir development than pre-drill estimates, seismic data confirms that the Cretaceous sands thicken as they extend into the Orinduik Block below Jethro (see seismic mapping within 'Offshore Guyana'section).

Eco and its partners plan to recommence drilling next year, and given the substantially de-risked nature of the play, we would typically expect another resurgence in the Company's valuation.

Activity poised to ramp up in Namibia

Given the region's confirmed working petroleum system and underexplored status, offshore Namibia is currently one of the hottest exploration regions in the world in our view. Several IOC's and independents have moved quickly to secure acreage in the most attractive licences, and few have been as successful as Eco in our view.

In April last year, Exxon increased its Namibian exploration acreage, adding 28,000km^2 in the Namibe Basin in the north, where it plans to carry out seismic acquisition and interpretation. Exxon is clearly ramping up its operations offshore Namibia, and we note that the company applied for, and was granted, Environment Clearance Certificates for exploration drilling in PEL82 (Walvis Basin) and PEL83 (Orange Basin) only last week, and we expect that these wells are likely to be drilled in 2021.

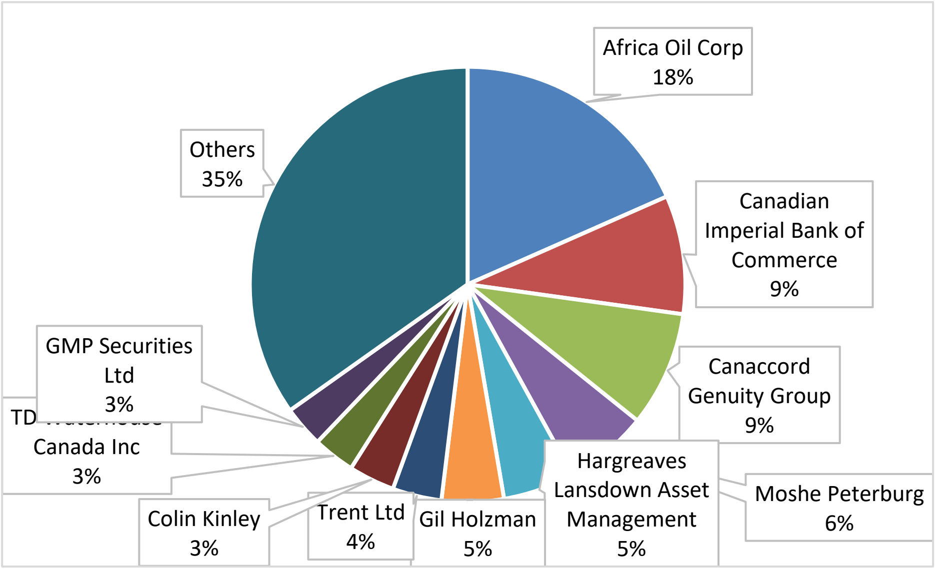
In addition, Shell, Total, and Galp have key strategic acreage positions which are subject to increasing activity. Therefore overall, we expect up to five high impact wells to be drilled in Namibian waters in the next 18 months by firms including Africa Energy, Total, Impact Oil & Gas, Maurel and Prom, and Shell.

Supportive shareholders, well-funded

Eco benefits from a strong and supportive shareholder register including a significant presence of management representation with Moshe Peterburg (Chairman), Gil Holzman (CEO), and Colin Kinley (COO) holding a combined 14.25% of the Company.

Perhaps the most interesting shareholder is TSX and Stockholm listed Africa Oil. In November 2017, Africa Oil took an initial 19.77% stake in Eco at a 28% premium to the closing price at the time.

Ownership Structure



Source: Bloomberg

Concurrent with the share subscription, Eco and Africa Oil entered into a Strategic Alliance Agreement. Africa Oil has the option to take an interest in any new asset, which will be at least equal to the percentage that it owns in Eco. For example, if Eco was to acquire a 50% stake in an exploration licence then Africa Oil would have the right to take an approximate 10% stake in this licence, with Eco taking the remaining 40% of the licence.

Eco currently retains an enviable cash position of US$18.3m and no debt. Given the recent tightening of the markets, the Company recently announced that it is guarding its capital position through the reduction of all but necessary expenses, including salaries and Board fees. As such, the Company remains fully funded for its share of further appraisal and exploration drilling on its flagship Orinduik Block, up to US$120m (gross). We also expect further M&A activity across the Company's four licences offshore Namibia, as activity in the region accelerates this and next year.

VALUATION AND RECOMMENDATION

Our sum-of-the-parts valuation illustrates that Eco's shares trade at a 79% discount to Risked NAV

Our current conservative valuation of Eco infers a risked sum-of-the-parts of 110p/shr (c.£203m mkt cap.), highlighting that the Company currently trades at a considerable (79%) discount to target NAV. We highlight that our prudent approach to valuing the Company at this stage does not include recognition of its Namibian portfolio, where Eco holds a potentially transformational acreage position, with near-term analogous drilling activity planned.

SOTP Valuation Matrix

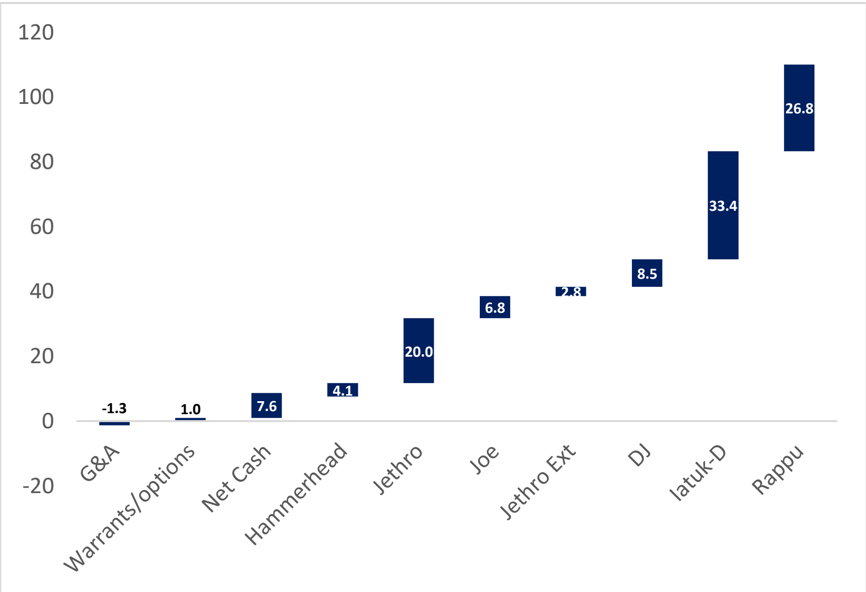
NAV by Activity	£m	p/share
Net Cash	14.1	7.6
G&A	-2.4	-1.3
Warrants/options	1.8	1.0
Hammerhead	7.6	4.1
Jethro	37.0	20.0
Joe	12.6	6.8
Core Value	**70.8**	**38.3**
Jethro Ext	5.3	2.8
DJ	15.7	8.5
Iatuk-D	61.6	33.4
Rappu	49.4	26.8
Target Mkt Cap/Price	**202.7**	**109.8**

Source: SP Angel estimates

Even on a conservative 'core valuation' which comprises a risked calculation of Eco's discovered fields and its financial assets and liabilities, Eco's share price currently trades at only 79% of this valuation. This is despite the Company being debt free, fully funded for drilling commitments, and in an enviable high interest acreage position offshore Namibia.

Our core valuation focuses solely on Eco's discovered assets in Guyana

SOTP Waterfall Chart



Source: SP Angel estimates

Clearly the bulk of our target valuation resides within the considerable Cretaceous potential offshore Guyana where there have been several material light oil discoveries made since 2015, in close proximity to the Orinduik Block. In line with the Company's farm-out agreement, Eco is fully funded to drill two further exploration (carry up to US$120m gross) wells which will specifically target this prolific formation.

Valuation Methodology

In line with our coverage universe, we value ECO using a combination of DCF and RENAV valuation techniques

We principally value Eco Atlantic using a combination of a Discounted Cash Flow (DCF) model which feeds into a Risked Net Asset (RENAV) valuation in line with our wider coverage universe. At this stage we do not value a plethora of prospects and leads in Guyana and Namibia given the early stage nature of these assets and uncertainty on drilling visibility. We also include a valuation of the Company's financial assets and liabilities.

We have incorporated the following assumptions into our financial model:

Metric	**Assumption**
Shares in issue (m)	184.7
LT exchange $/£	1.27
Bcf/Mmboe	5.80
LT Oil Price/bbl (01/01/2021)	US$50.23/bbl - flex 2% per annum
NPV/boe discount factor	10%
Inflation	2%
NPV/boe – Joe/Jethro	US$2.1/boe
Commercial CoS - Joe	50%
Commercial CoS - Jethro	70%
Re-commencement of drilling in Guyana	H1 2021

Source: SP Angel estimates

Our RENAV takes account of Eco's last reported resource estimates. For each licence under valuation, we have calculated full field development on a DCF basis to infer a 10% NPV/bbl.

Following the announcement late last year that Joe and Jethro contain heavy, high sulphur crude, we have taken a very conservative approach to our DCF analysis leading to an optically low NPV/boe of US$2.1/boe.

However, the Company is looking at numerous different development scenarios and has brought in a third-party consultant with heavy oil development expertise to help narrow down these options (see 'Offshore Guyana' section).

Exxon's Hammerhead Lower Tertiary discovery on the Stabroek block, which extends onto Eco's acreage, is also thought to have similar oil to Jethro and Joe. Encouragingly, this well was successfully flow tested in Q3 2019 and Exxon has confirmed that it will be developed, targeting production by as early as 2025.

Net Risked Asset Valuation (RENAV)

Lead	Country	Formation	Gross Unrisked Prospective Oil Resources (P50) MMBOE	Net Unrisked Prospective Oil Resources (P50) MMBOE	Geological CoS	Commercial CoS	Risked	NPV 10% $/boe	Unrisked NPV US$m	Risked NPV US$m	Net Risked £m	Net Risked p/share
Contingent												
Hammerhead	Guyana	Tertiary	15.0	2.3	81%	100%	1.8	5.4	12.2	9.8	7.6	4.1
			15.0	**2.3**			**1.8**	**5.4**	**12.2**	**9.8**	**7.6**	**4.1**
Visible Exploration												
Jethro	Guyana	Tertiary	208.3	31.2	100%	70%	21.9	2.2	68.7	48.1	37.0	20.0
Joe	Guyana	Tertiary	104.4	15.7	100%	50%	7.8	2.1	32.9	16.4	12.6	6.8
Jethro Ext	Guyana	Tertiary	53.8	8.1	43%	70%	2.4	2.8	22.6	6.8	5.3	2.8
DJ	Guyana	Cretaceous	173.9	26.1	34%	40%	3.5	5.8	151.3	20.4	15.7	8.5
Iatuk-D	Guyana	Cretaceous	725.3	108.8	31%	40%	13.6	5.9	641.9	80.1	61.6	33.4
Rappu	Guyana	Cretaceous	500.1	75.0	35%	40%	10.5	6.1	457.6	64.2	49.4	26.8
			1,765.8	**264.9**			**59.8**	**24.9**	**1,375.0**	**236.1**	**181.6**	**98.3**
Leads												
Jimmy	Guyana	Tertiary	68.4	10.3	65%	40%	2.7	3.6	36.9	9.5	7.3	4.0
Jethro Chan	Guyana	Tertiary	137.3	20.6	42%	40%	3.4	3.6	74.1	12.4	9.5	5.2
Alice	Guyana	Tertiary	196.7	29.5	31%	40%	3.7	3.6	106.2	13.3	10.2	5.5
Kurty U	Guyana	Tertiary	42.8	6.4	30%	40%	0.8	3.6	23.1	2.7	2.1	1.1
Kurty L	Guyana	Tertiary	35.8	5.4	30%	40%	0.6	3.6	19.3	2.3	1.8	1.0
Jethro KW	Guyana	Tertiary	158.5	23.8	34%	40%	3.2	3.6	85.6	11.5	8.8	4.8
Jethro West	Guyana	Tertiary	183.8	27.6	34%	40%	3.7	3.6	99.3	13.3	10.3	5.6
KB	Guyana	Cretaceous	339.6	50.9	32%	25%	4.0	4.7	239.4	18.9	14.5	7.9
KG	Guyana	Cretaceous	724.7	108.7	31%	25%	8.5	4.7	510.9	39.9	30.7	16.6
Amaila/Kumaka	Guyana	Cretaceous	775.8	116.4	32%	25%	9.2	4.7	546.9	43.1	33.1	17.9
KC	Guyana	Cretaceous	47.5	7.1	26%	25%	0.5	4.7	33.5	2.2	1.7	0.9
Amatuk	Guyana	Cretaceous	267.3	40.1	29%	25%	2.9	4.7	188.4	13.6	10.4	5.7
MJ-3	Guyana	Cretaceous	263.5	39.5	29%	25%	2.8	4.7	185.8	13.4	10.3	5.6
KC-A	Guyana	Cretaceous	73.8	11.1	26%	25%	0.7	4.7	52.0	3.4	2.6	1.4
EriKat	Guyana	Cretaceous	45.1	6.8	31%	25%	0.5	4.7	31.8	2.4	1.9	1.0
Osprey	Namibia		245.2	141.0	18%	25%	6.3	5.2	733.2	33.0	25.4	13.7
			3,605.8	**645.1**			**53.5**	**68.0**	**2,966.6**	**234.8**	**180.6**	**97.8**

Source: SP Angel estimates

Financial assets and liabilities

We also include an appraisal of Eco's financial assets and liabilities. In addition to the Company's current net cash position of c.£14.1m (US$18.3m or 8.7p/share), we provide for an NPV10 of the Company's non-field related post tax G&A expenditure.

5-year post-tax G&A

US$'000	FY20	FY21	FY22	FY23	FY24
Post tax G&A	1,250.6	1,253.1	1,255.6	1,258.1	1,260.6
NPV10	(3,115.8)				
p/shr	(1.3p)				

Source: SP Angel estimates

We initiate coverage with a STRONG BUY rating setting a TP of 110p/share

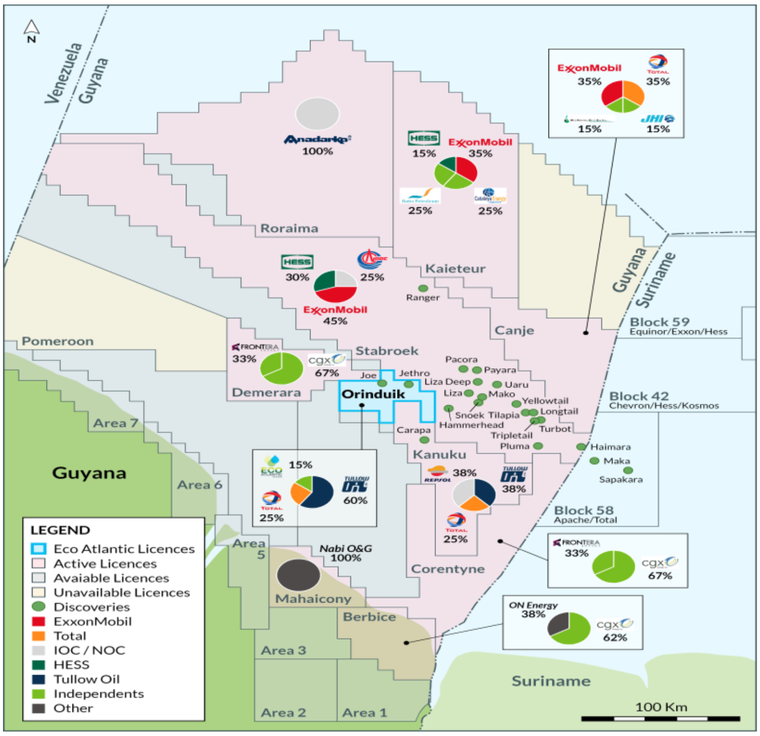
We initiate coverage setting a TP of 110p/share price target

In our view, Eco's shares offer investors a compelling entry point into a technically adept explorer, with a transformational asset base. The Company has successfully demonstrated that it has the ability to unlock new basins, securing first mover advantage and attracting blue-chip partners. With significant de-risked activity planned offshore Guyana next year, alongside an enviable portfolio of prospects offshore Namibia, we place Eco within our STRONG BUY list, setting a 110p/share price target.

Offshore Guyana

Offshore Guyana has come into sector focus over the past five years due to a succession of significant discoveries made by a number of IOCs and independents, however the region has a much longer history of activity whilst still remaining largely underexplored.

Offshore Guyana has come into sector focus over the last five years



The first wells offshore Guyana were drilled by Conoco and Tenneco in 1967, with the Guyana Offshore #1 well encountering gas shows and the subsequent Guyana Offshore #2 well coming up dry.

Shell and Conoco drilled the Berbice #1 well in 1971 that had oil and gas shows in the Miocene but was abandoned after a gas kick at 2,171m in the Eocene. The Berbice #2 well found minor gas shows and oil stains in the Pliocene and Oligocene.

Shell drilled the Mahaica #1 and #2 wells in 1974 without success, but followed that up with the Abary #1 well which found oil and gas shows and flowed 37 degree API oil from the turbidite at a depth of 3,990m.

Deminex drilled the Essequibo #1 well in 1977 which had several oil and gas shows in the Miocene and Upper Cretaceous but the subsequent well, the Essiquibo #2 drilled nearby had only minor shows of methane in the Upper Cretaceous. The Essiquibo wells and the Berbice wells were located on the extreme southern part of the Orinduik Block.

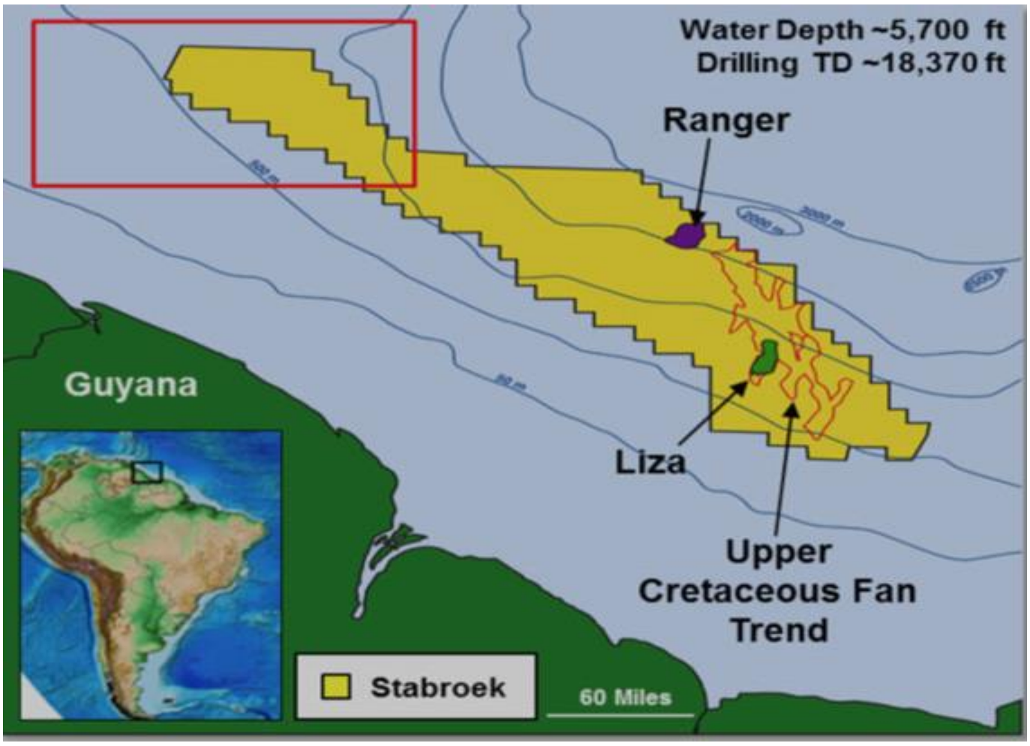
Interest in the basin started to re-emerge following a US Geologic Survey's (USGS) geologic survey of undiscovered conventional oil and gas resources in 2000. USGS rated the basin as having the second highest resource potential among global unexplored basins.

Exxon kick starts a surge in sector interest following the Liza #1 well

Exxon unlocked and de-risked the basin in 2015 after Eco applied for the Orinduik licence

A significant land-grab ensued on behalf of key industry players, including Eco, and sector and market interest surged following Exxon's 2015 successful Liza #1 well which discovered commercial quantities of oil and gas in the Stabroek Block, which is adjacent to the Orinduik Block.

Success at Liza was followed by further discoveries at Payara, Liza deep, Snoek, Turbot, Ranger and Pacora by early 2018.



This discovery was followed by several additional successes which resulted in an estimated gross discovery of 9.5bnbbls, and recoverable resource of 4bnbbls.

	Block Size (acres)	Thickness (feet)	Gross size (K acre-feet)	Yield (BOE/acre-ft)	Gross Size (MMBOE)
Liza discovery	26,800	295	7,906	225	1,639
Payara discovery	25,000	95	2,375	225	534
Pacora discovery	25,000	65	1,625	225	366
Longtail discovery	25,000	256	6,400	175	1,120
Snoek	25,000	82	2,050	225	461
Turbot discovery	25,000	75	1,875	225	422
Ranger discovery	25,000	230	5,750	175	1,006
Hammerhead discovery	25,000	197	4,925	175	862
Pluma	25,000	121	3,025	175	n/a
Tilapia discovery	25,000	305	7,625	175	1,334
Haimara discovery	25,000	207	5,175	175	n/a
Yellowtail discovery	25,000	292	7,300	175	1,278
Tripletail discovery	25,000	108	2,700	175	473
Total			58,731	194	9,495

Exxon has drilled over 15 wells to date on the Stabroek Block including the Hammerhead #1 well and has plans to develop the discovered fields with Liza currently on production with a phase 1 production target to reach 120,000bopd. Full development of Liza is slated to reach 750,000bopd by as early as 2025.

Orinduik Block, offshore Guyana, Eco 15% working interest

Overview

Orinduik is situated in shallow water

Eco's interests offshore Guyana comprise the 1800km^2 Orinduik Block is situated in shallow water (70m – 1,400m), 170km offshore Guyana in the Suriname Guyana basin. The block is also located 11km up-dip from ExxonMobil's Liza discovery and 6km up-dip from the Hammerhead discovery.

Eco holds a 15% working interest in Orinduik alongside the Operator Tullow (TLW LN) - 60%, and Total (TTA) - 25%, after exercising an option to acquire part of Eco's interest in September 2018.

Background to the Licence

In January 2016, Eco signed a Petroleum Agreement and is party to a Petroleum Licence with the Government of Guyana and Tullow for the Orinduik Block offshore Guyana.

Eco entered Guyana in 2016

Tullow paid past costs and carried Eco for the first 1000km^2 of the 2550km^2 3D Survey. Further, Tullow contributed an extensive 2D seismic data set and interpretation. The Company's 2550km^2 3D seismic survey was completed in September 2017, well within the initial four-year work commitment the Company made for the initial 1000km^2.

In September 2017, Eco announced that the Company had entered into an option agreement on its Orinduik Block with Total. Total paid an option fee of US$1m to farm-in to the Block, in addition to a payment of US$12.5m when it exercised its option to earn 25% of Eco's working interest in September 2018.

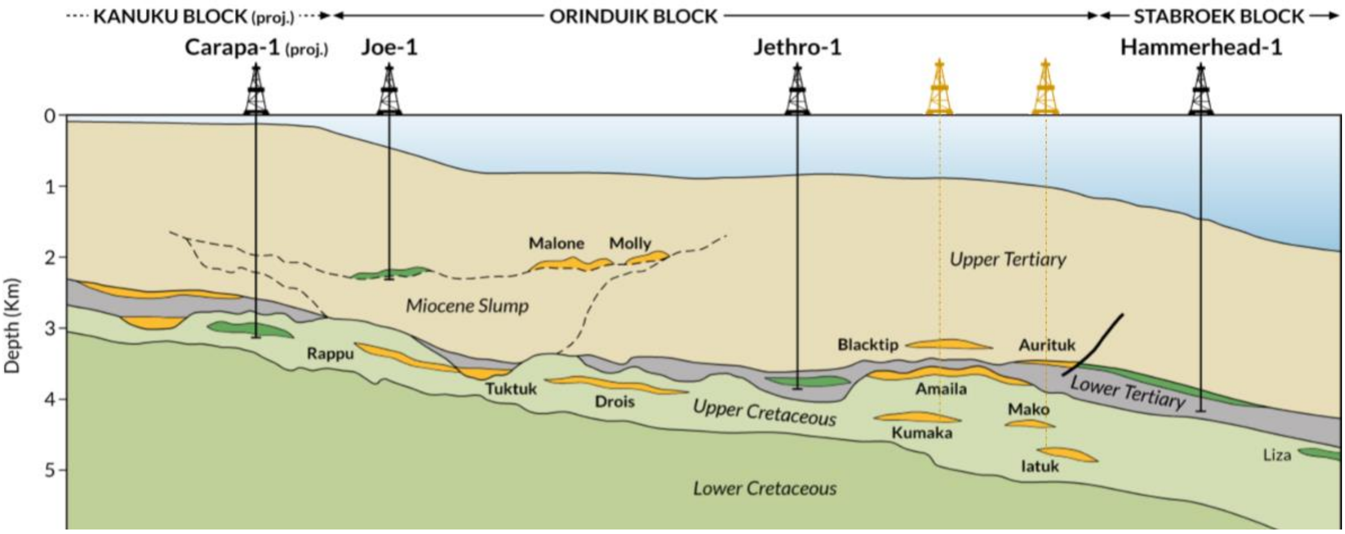
Successful drilling campaign yields transformational results

In December 2018, Eco announced the first of a two well 2019 drilling programme on the Orinduik Block, initially targeting the Jethro-Lobe prospect, estimated to hold 250MMbbl of gross prospective resources.

Eco announced its first discovery in 2019

In August 2019, the Company announced a major oil discovery through the Jethro-1 exploration well. The well to a final depth of 14,331ft (4,400m) in c.1,350m of water. Evaluation of logging data confirmed that Jethro-1 encountered an oil-bearing high-quality sandstone reservoir of Lower Tertiary age. The well yielded a significant discovery for Eco and its partners encountering 180.5ft (55m) of net oil pay in excellent lower Tertiary sandstone reservoirs, which supports recoverable oil resources.

Following this initial success, Eco announced its second oil discovery on the Orinduik Block in September 2019. The Joe-1 exploration well was drilled to a final depth of 7,176ft (2,175m) in 2,546ft (780m) of water.



Evaluation of Joe-1 confirmed the second discovery on the Orinduik license with the well encountering an oil-bearing high-quality sandstone reservoir with a high porosity of Upper Tertiary age. It encountered 52ft (16m) of continuous thick sandstone, which further supports the presence of recoverable oil resources.

Heavy crude, but still commercial in material quantities

Share price sell down gives rise to compelling opportunity

Eco's share price saw a large, unwarranted in our view, sell down late last year as Tullow announced that subsequent analysis confirmed the Jethro/Joe discoveries contain heavy sour crude. Whilst this could present development challenges, including flow assurance and lower project economics than previously anticipated, the analysis reiterated that the reservoir is high-quality, over-pressured and at a high well head temperature, all of which will help with the mobility of the oil.

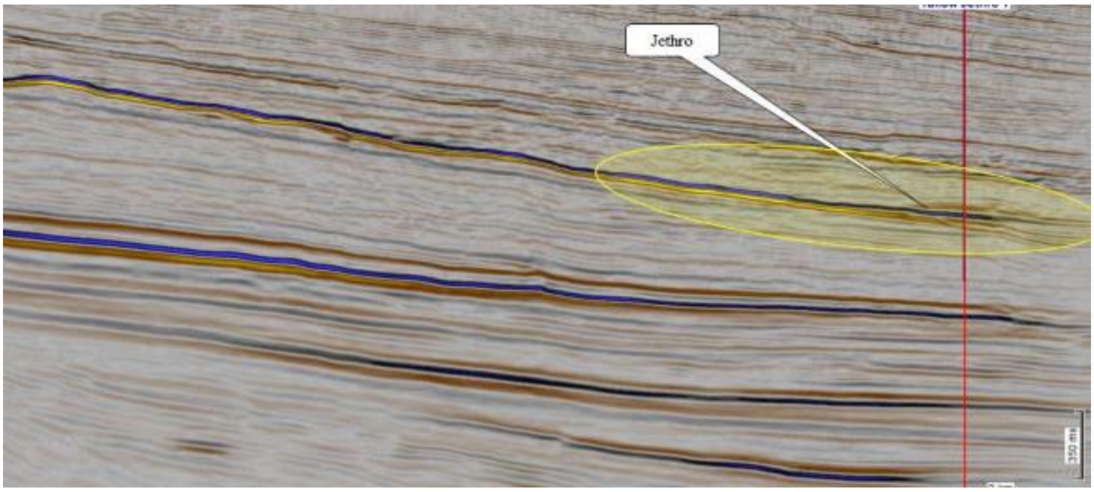
We highlight that high sulphur oils sell at a small discount to light sweet grades such as Brent – Iraq's Basrah Heavy (23.7 API, 4.1% sulphur) currently sells at a US$2.8/bbl (7%) discount, Mexican Maya crude (22 API, 3.3% Sulphur) for delivery to the Far East sells at a US$3.8/bbl (7.8%) discount to Brent. This discount may also widen with the recent introduction of new marine bunker fuel specifications – International Maritime Organization (IMO) 2020 specifications will be introduced this year that require ships to reduce the level of sulphur in their engine emissions from 3.5% to 0.5% or less.

In our view, given the significant volumes encountered at Jethro, in particular, exhibits excellent commercial viability given the temperature of the crude, the over-pressured, high-quality reservoir sands and the crude viscosity that offset the fact it is heavy and sour.

Eco has since highlighted that the crude tested to date appears not dissimilar to the commercial heavy crudes currently in production in the North Sea, Gulf of Mexico, the Campos Basin in Brazil, Venezuela and Angola. This is supported by the commentary from Hess on its Tertiary Hammerhead discovery, which is heavier than the Cretaceous discoveries on the Stabroek block.

Large volumes support commercial development

This is most likely also due to Jethro being much deeper than Joe, therefore exhibiting higher pressures and temperatures. We are also of the view that Eco's Tertiary results (shallower targets) do not have any bearing on the Cretaceous plays (deeper targets with 3.9bnboe of unrisked prospective resource) on the Orinduik Block, primarily due to the likelihood of a different source rock. As such, the deeper burial (the oil should be lighter) and the fact that the multitude of Cretaceous discoveries made by Exxon/Hess on the adjacent block are much lighter and sweeter than Joe. This is further supported by results of the January 2020 Carapa-1 exploration well, drilled by Tullow on the Kanuku licence immediately adjacent to the Orinduik Block. The well encountered light cretaceous oil suggesting a separate source rock to the tertiary aged reservoirs.



Importantly, whilst Tullow confirmed a lower net pay and reservoir development than pre-drill estimates, seismic data (above) confirms that the Cretaceous sands thicken as they extend into the Orinduik Block below Jethro.

Global scenarios support heavy/sour oil developments

Analogous fields demonstrate commerciality

As mentioned above, there are a plethora of heavy and/or high sulphur offshore developments that are commercially viable in sufficient volumes. The UK has developed several heavy oil fields through horizontal drilling techniques, including the high producing Captain field with 88cp. In addition, Equinor's Mariner field has crude in the Heimdal reservoir which has a lower API than Joe at 12.1 and a higher viscosity with 70MMbbls of oil having already been produced.

Whilst the sulphur content of the crude at Joe/Jethro is high (c.4%) there are fields with significantly higher sulphur contents that are produced from globally. It is more difficult offshore given that the sulphur needs to be removed and reinjected from the offshore production facility, however this appears to be viable given progressive advancements in offshore technology.

Offshore Namibia

Much like offshore Guyana, drilling offshore Namibia experienced an inauspicious start with well-publicised expensive dry wells on behalf of BP, HRT, and Chariot. Nevertheless, the understanding of the four Namibian basins has come on significantly since the beginning of the 2012 drilling campaign, all arguably on a different era of understanding, whilst well costs have reduced significantly.

Working petroleum system confirmed offshore Nambia

Namibia benefits from an attractive operating environment and existing infrastructure (deepwater port/logistics hub) at Walvis Bay. Along with its long-established regulatory regime set in a politically stable industry welcoming environment, it has an attractive fiscal regime: a 5% royalty, 35% tax rate and 25% additional profit tax (APT) when the project IRR is over 15%.

Eco's considerable acreage position offshore Namibia comprises four licences – Sharon(PEL33), Guy(PEL34) and Tamar(PEL50). The Tamar Block was obtained more recently from Pan African who had obtained the license in March 2012.

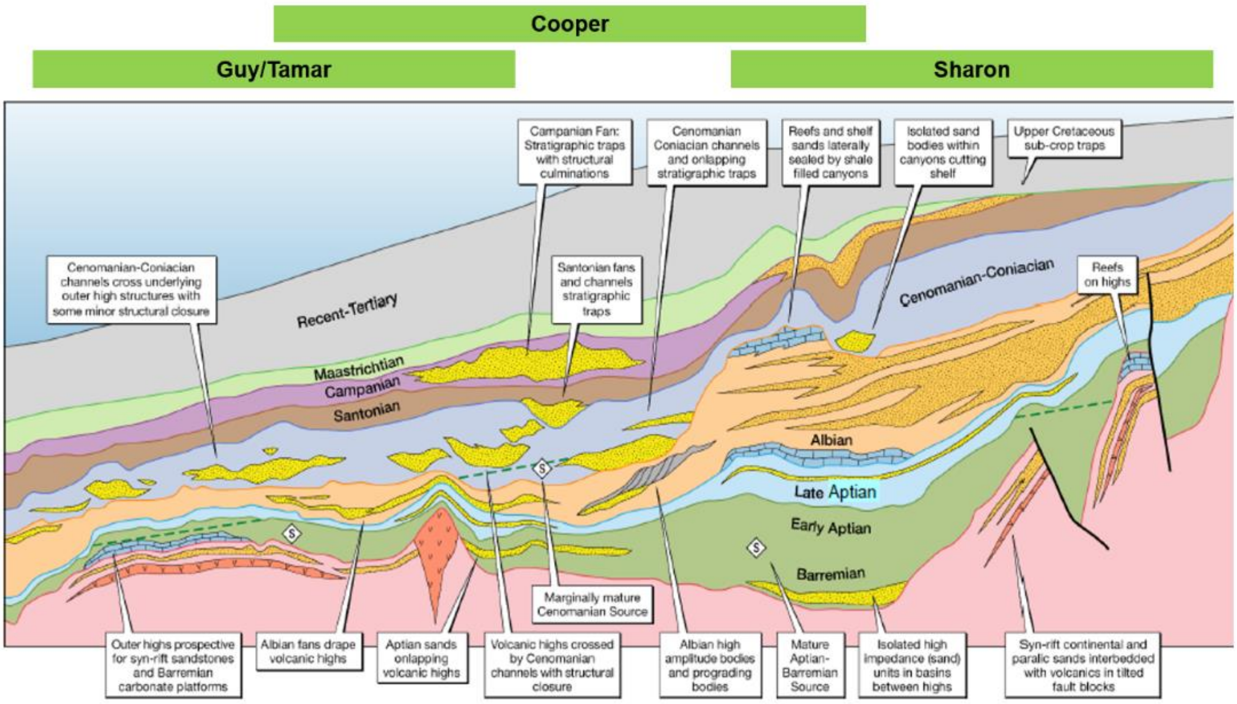
Eco initially executed a new and successful strategy in partnering with State Oil Company, NAMCOR, which ultimately provided access to all the seismic data and therefore first mover informed advantage over the most attractive Blocks. Eco's four offshore petroleum licenses cover 23,000km^2 off the west coast of Namibia, and are estimated to hold c.25bnbbls of in place prospective resources.

Eco has struck deals with several partners

The considerable prospectivity of the Blocks has been evidenced by Eco attracting NAMCOR, AziNam, ONGC Videsh and Spectrum Geo Ltd into the licences. Moreover, Eco retains high equity interests (57.5% to 80%) and currently acts as the Operator of three of the licences thereby allowing for farm-out capital commitment carries ahead of drilling.

	Cooper	Sharon	Guy	Tamar
Eco (Atlantic)	57.50%	60%	50%	80%
NAMCOR	10%	10%	10%	10%
AziNam	32.50%	30%	40%	0%
Spectrum	0	0%	0%	10%
	100.00%	100.00%	100.00%	100.00%

All of Eco's licences offshore Namibia are located in the Walvis Basin, where the industry deems to be the optimum geological setting in the region for an oil discovery.



Oil seeps observed close to Cooper Block

Oil seeps have been observed in the offshore area in close proximity to the Cooper Block. Early Aptian source rock is located on Cooper Block down dip to the leads. A preliminary study by PGS based on geothermal gradients derived from the existing well information indicates that the Turonian–Cenomanian aged source rock could be in the oil window in the western part of the Cooper Block and the Aptian aged source rock could be within the oil window throughout most of the Block.

The reservoirs consist of sandstones deposited in marine, channel-fan complexes on the slope. Whilst the Block is estimated to contain 882MMboe of gross unrisked prospective resources, given the early stage and prospective nature of the acreage, most of the leads have <5% chance of success.

The highest-graded target is the 245Mboe Osprey prospect, which is estimated to have an 18% Geological Chance of Success. The prospect is interpreted to be of Apto/Albian age, within a sand filled channel and fan system.

Lead	Country	Gross Unrisked Prospective Oil Resources (P50) MMBOE	Net Unrisked Prospective Oil Resources (P50) MMBOE	Unrisked NPV US$m	Risked NPV US$m	Net Risked £m	Unrisked p/share	Net Risked p/share
Osprey	Namibia	245.2	141.0	733.2	33.0	25.4	305.36	13.7

On the 3D seismic it pinches out at the base of the slope forming a stratigraphic trap. Based on our US$5.2/boe NPV10 at US$55/bbl flat, we see this prospect worth 305p/share unrisked.

Underlining the transformational prospectivity of Eco's Namibian acreage, the latest CPR (Gustavson Associates, 2016) estimates 2.36bnbbls of P50 prospective resources (net to Eco), including 430MMbbls at Cooper, 1.33bnbbls at Sharon, and 790MMbbls at Guy.

Guy licence (PEL 030)

Ospey prospect high graded

In the 5,000km^2 Guy licence, Eco has a 50% working interest and AziNam has a 40% stake. To date, the partners have carried out 1,000km of 2D and 870km^2 of 3D seismic which has been processed and interpreted by the operator AziNam. The deeper play of the Guy lience is thought to comprise a syn-rift source rock, which is expected to be in the oil window. Given its large equity interest, we believe that Eco Atlantic would look to farm down a share of its equity in this licence to reduce its capital commitment for a potential well. We see the well commitment by March 2021, which is extendable by one year, being extended further given restrictions due to COVID-19.

Sharon licence (PEL 33)

In the Sharon licence, Eco Atlantic has a 60% working interest with AziNam holding 30%. Eco and AziNam proportionally carry NAMCOR's Working Interest through to production, at which time the carry is paid back plus 20% interest rate. Under the licence terms, the block must have a 3D seismic survey and have a well drilled by March 2021, which is extendable by one year. We see that being extended further given restrictions due to COVID-19.

Tamar licence (PEL 50)

In the 7,500km^2 Tamar licence, Eco has an 80% working interest (Eco carries Spectrum's 10% interest). Eco holds this licence through PAO Namibia in which it bought out the minorities to increase its stake to 100% from 90% through the issuance of 300,000 shares (~US$200k in value giving an implied value of US$2.5mm for the block).

This licence lies adjacent and to the south of the Guy licence and was acquired through the acquisition of Pan African Oil Ltd in January 2015. The next target on the block is to shoot a 3D seismic survey (there is a commitment to shoot 250km^2 of 3D by end October 2020. We see the well commitment by March 2021, which is extendable by one year, being extended further given restrictions due to COVID-19.

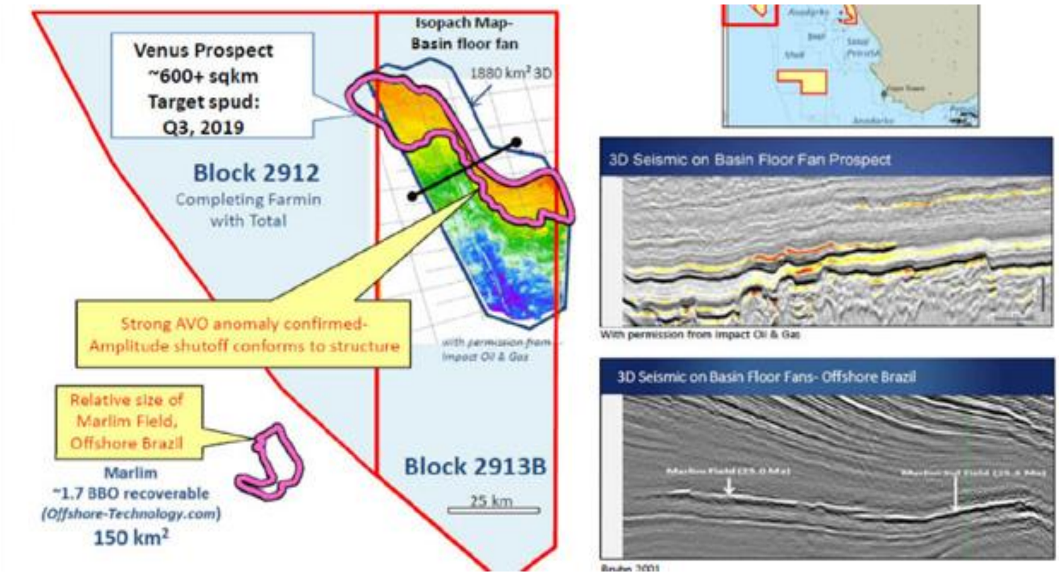
Offshore Namibia will see significant near-term activity

Despite the early exploration disappointment outlined earlier in this report, Namibia continues to draw significant industry interest. In April last year, Exxon increased its Namibian exploration acreage, adding 28,000km^2 in the Namibe Basin in the north, where it plans to carry out seismic acquisition and interpretation. Exxon is clearly ramping up its operations offshore Namibia, and we note that the company applied for, and was granted, Environment Clearance Certificates for exploration drilling in PEL82 (Walvis Basin) and PEL83 (Orange Basin) only last week, and we expect that these wells are likely to be drilled in 2021.

Increased activity in the region acts as important catalyst

In addition, Shell, Tullow, and Galp have key strategic acreage positions which are subject to increasing activity. Therefore overall, we expect up to five high impact wells to be drilled in Namibian waters in the next 18 months by firms including Africa Energy, Total, Impact Oil & Gas, Maurel and Prom, and Shell. One reason for the continued optimism is that, while scores of wells have been drilled, Namibia remains relatively underexplored, given the extent of acreage extending out from its 1,500km of coastline.

Perhaps the nearest term activity in the region will be Total's Venus-1 exploration well on block 2913B offshore Namibia, and the Luiperd-1 well on block 11B/12B offshore South Africa – both to spud this year. Venus-1, which will be jointly funded by Impact Oil & Gas, is expected to spud during 2H20.



The well will target a large basin floor fan in c.3,000m of water, which is likely be the deepest well to be drilled in Africa and which data analysed so far suggests could be in a multi-billion-barrel play. The prospect is located much further offshore, in a different structural domain, than previous wells and is testing a new play concept. Success would reduce the play risk for adjacent acreage holders, including Shell, and would have wider significance for exploration in deep water in Namibia in our view.

Activity to accelerate over the next 18 months

Clearly, operations offshore Namibia continue apace despite industry curtailment following the COVID-19 pandemic. We believe that Eco will benefit directly from any exploration success in the region, with corresponding value ascribed to its significant acreage position. We also believe that given the Company's high equity interest positions in a key strategic basin, Eco will have no shortage of potential partners looking to exploit one of the most compelling geological settings in the world.

DIRECTORS AND MANAGEMENT

Moshe Peterburg, Non-executive Chairman

Mr Peterburg is a private investor with over 25 years of investment experience in Africa and Eastern Europe. He is the founder of Peterburg Holdings, a private investment company with a broad portfolio across many sectors including infrastructure, mining and oil and gas. Mr Peterburg was also a co-founder of GP Minerals Ltd, a private resource investment and development company. Furthermore, he is the chairman of the board of trustees of the Design Museum Holon and is also a member of the acquisition committee of the Tate Modern Museum in London.

Mr Peterburg holds a BSc in Electronic Engineering from Haifa Technion and an MBA in Finance from Tel Aviv University.

Gil Holzman, President & Chief Executive Officer

Mr Holzman has 15 years of experience in the mining and energy resource sectors throughout South America and Africa. Prior to co-founding Eco (Atlantic) Oil and Gas, Mr Holzman was a co-founder of GP Minerals Ltd, a private resource investment and development company, and, between 2003 and 2006, he was the Managing Director of Bombardier Inc's Middle East Region. Mr Holzman has also held a variety of strategic consultancy roles, including co-founding political consultancy, GCS Issue Management Ltd.

Mr Holzman has a BA in Business Management and Finance and an LLB in Israeli and International Law from IDC Herzilya. He also has an MBA from The Arison School of Business.

Colin Kinley, Chief Operating Officer

Mr Kinley is CEO of Kinley Exploration LLC, leading a team of industry experts providing professional, technical and oversight expertise to international resource companies within the upstream sector. With 35 years of international expertise in integrated energy project management and the development of new energy an resource companies, Mr Kinley has served as a senior executive to several E&P companies and oilfield service companies, as well as possessing significant experience in frontier resource development.

Mr Kinley is also President and CEO of Jet Mining Pty LLC and a Non-Executive Director of TSX-V listed companies, Coro Mining Corp and Excelsior Mining Corp

Gadi Levin, Finance Director

Mr Levin is a chartered accountant with many years of experience in the public and private equity markets. His experience spans multiple jurisdictions including South Africa, the UK and Israel. He has acted as financial controller for Eco (Atlantic) Oil & Gas on a consultancy basis since November 2014 and was appointed as Finance Director of the company on 28 November 2016.

Mr Levin is also currently the Chief Financial Officer of TSX-V listed companies Vaxil Bio Ltd., Briacell Therapeutics Corp. and Adira Energy Ltd.

He has a Bachelor of Commerce degree in Accounting and Information Systems, has received his Chartered Accountant designation in South Africa and has an MBA from Bar Ilan University in Israel.

Alan Friedman, Executive Director

Mr Friedman, a South African qualified attorney, has been associated with the North American public markets for two decades and has a depth of experience in representing, advising, and assisting small-medium cap companies in acquiring assets, accessing capital, going public transactions and advising on M&A, and managing emerging growth businesses.

He is the managing partner and co-founder of Bayline Capital Partners, a Canadian based capital markets advisory boutique, involved in the business of identifying, financing and managing a portfolio of companies across a wide range of sectors. Mr Friedman was also the co-founder of Auryx Gold Corp, sold to B2 Gold for $200m; Osino Resources and Enthusiast Gaming.

Kangulohi Helmut Angula, Non-Executive Director

Mr Angula has served as the Finance Minister and Deputy Minister of Mines and Energy, as well as five other cabinet portfolios within the Government of Namibia for a period spanning over 20 years. Since leaving the Government of Namibia, Mr Angula has focused on private business opportunities and is a consultant to the mining, energy, infrastructure and real estate industries in Namibia

Peter Nicol, Non-Executive Director

Mr Nicol has over 40 years' experience in the oil and gas industry in both industry and investment banking. He was a partner at GMP Securities, Executive Managing Director at Tristone Capital, Global Sector Director of Oil Research at ABN Amro and Head of European Oil and Gas at Goldman Sachs.

He has worked with and advised a number of small-medium cap and private-equity financed companies in the UK, Canada and Norway on M&A, financing and as a Director. He is currently a Director of Touchstone Exploration, ERCe and Thorogood Associates. Mr Nicol holds a BSc in Mathematics and Economics from Strathclyde University in Glasgow.

Keith Hill, Independent Director

Mr. Hill has over 35 years' experience in the oil industry including 23 years with the Lundin Group as well as international new venture management and senior exploration positions at Occidental Petroleum and Shell Oil Company. Mr. Hill previously served as President of Valkyries Petroleum, BlackPearl Resources and Shamaran Petroleum and is currently a Director of Africa Energy, Impact Oil and Gas and TAG Oil.

Mr. Hill is currently President and CEO of Africa Oil Corp., a publicly traded oil and gas company focused on East Africa.

His education includes a MSc in Geology and BSc degree in Geophysics from Michigan State University. Additionally, he also holds an MBA from the University of St. Thomas in Houston.

Exploration and production risks

There is no assurance that Eco exploration and appraisal activities will be successful or, if they are successful, that commercial quantities of oil and/or gas can be recovered from the Company's licensed areas. No assurance can be given that, if commercial reserves are discovered, the Company will be able to realise such reserves as intended. Negative results from initial exploration programmes may result in downgrading their prospectivity. An area may therefore be considered not to merit further investment and licences could be surrendered (subject to the approval of the licensing authority) prior to the drilling of any exploratory wells.

Regulatory changes

The Company's strategy has been formulated in the light of the current regulatory environment and likely future changes. The regulatory environment may change in the future and such changes may have a material adverse effect on Eco.

Licences and contractual risks

Eco's activities are dependent upon the grant and maintenance of appropriate licence concessions, leases, permits and regulatory consents which may not be granted or may be withdrawn or made subject to limitations. Unforeseen circumstances or circumstances beyond the control of the Company may lead to commitments given to licensing authorities not being discharged on time. Although the Company believes that the authorisations will be renewed following expiry or grant (as the case may be), there can be no assurance that such authorisations will be renewed or granted or as to the terms of such grants or renewals.

Operational and environmental risks

Drilling, appraisal, exploration, construction, development and production activities may involve significant risks and operational hazards and environmental, technical and logistical difficulties. These include, inter alia, the possibility of uncontrolled hydrocarbon emissions, fires, earthquake activity, extreme weather conditions, coastal erosion, explosions, blowouts, cratering, over-pressurised formations, unusual or unexpected geological conditions, unpredictable drilling-related problems, equipment failure, labour disputes and the absence of economically viable reserves. These hazards may result in delays or interruption to production, cost overruns, substantial losses and/or exposure to substantial environmental and other liabilities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner, which could limit or curtail production or development.

Non-achievement of anticipated timetables

Drilling rigs or other equipment may not be available at the time envisaged (due to, for example, delays in making appropriate modifications, adverse weather conditions, insolvency of the owners or total loss) or may fail to perform in accordance with the Board's expectations in regard to the timetable. There is no guarantee that replacement equipment will be available on reasonable commercial terms or at all. Failure to meet the expected timetables may result in the Company being unable to generate cash from those assets. This would have a material adverse effect on the Company's business, prospects, financial condition and operations. The Company's anticipated timetables for all of its current and expected operations are Board estimates based on a number of variables not all of which are under the Company's direct control. The Company is dependent upon the operators of its assets to act in accordance with agreed plans in respect of each of the assets but the Company has no control over such persons save under contractual terms which may be costly and time consuming to enforce. If the timetable estimates prove to be wrong or the operators or any of them do not take the actions in relation to maintaining or developing the assets then it may lead to delays or further problems which may have a material adverse effect on the Company's business, prospects, financial condition and operations.

Early-stage licence development with no proven reserves

Certain of the operations in which Eco has an interest are at an early stage of development and future success will depend on the Company's ability to successfully manage the current projects and to take advantage of further opportunities which may arise. There can be no guarantee that the Company can or will be able to, or that it will be commercially advantageous for the Company to, develop any acreage subject to any tenement, permits or licences in which the Company has or may acquire an interest.

Reserve and resource estimates

Any future reserve and/or resource figures for projects in which the Company may invest, or may acquire, will be estimates and there can be no assurance that the oil, gas and hydrocarbons are present, will be recovered or that they can be brought into profitable production. Reserves and resources estimates may require revisions based on actual production experience. Furthermore, a decline in the market price for oil and gas that may be discovered could render oil and gas reserves containing relatively low volumes of hydrocarbons uneconomic to recover and may ultimately result in a restatement of reserves.

Environmental regulation

Environmental and safety legislation in jurisdictions in which the Company operates may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees, and more stringent enforcement of existing laws and regulations. There may also be unforeseen environmental liabilities resulting from oil and gas activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential clean-up costs and obligations and liability for toxic or hazardous substances for which the Company may become liable as a result of its activities, may be impossible to assess against the current legal framework and current enforcement practices of the various jurisdictions in which the Company operates, or in which it may operate in the future.

Market risk

In the event of successful exploration and development of oil and gas reserves, the marketing of the Company's prospective production of oil and gas from such reserves will be dependent on market fluctuations and the availability of processing and refining facilities and transportation infrastructure, including access to ports, shipping facilities, pipelines and pipeline capacity at economic tariff rates, over which the Company may have limited or no control. Pipelines may be inadequately maintained and subject to capacity constraints and economic tariff rates may be increased with little or no notice and without taking into account producer concerns.

Increase in drilling and production costs, and availability of drilling equipment

The oil and gas industry historically has experienced periods of rapid cost increases. Increases in the cost of exploration, production and development would affect the Company's ability to invest in prospects and to purchase or hire equipment, supplies and services. In addition, the availability of drilling rigs and other equipment and services is affected by the level and location of drilling activity around the world.

Volatility of commodity prices

The demand for, and price of, oil and gas are highly dependent on a variety of factors, including international supply and demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future.

DISCLAIMER: NON-INDEPENDENT RESEARCH

This note is a marketing communication and comprises non-independent research. This means it has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

MiFID: Based on our analysis, we have concluded that this note may be received free of charge by any person subject to the new MiFID rules on research unbundling pursuant to the exemptions within Article 12(3) of the MiFID Delegated Directive and FCA COBS Rule 2.3A.19. Further and fuller analysis may be viewed here http://www.spangel.co.uk/legal-and-regulatory-notices.html.

This note has been issued by SP Angel Corporate Finance LLP ('SPA') in order to promote its investment services. Neither the information nor the opinions expressed herein constitutes, or is to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. The information contained herein is based on sources which we believe to be reliable, but we do not represent that it is wholly accurate or complete. SPA is not responsible for any errors or omissions or for the results obtained from the use of such information. Where the subject of the research is a client Company of SPA we will usually have shown a draft of the research (or parts of it) to the Company prior to publication in order to check factual accuracy, soundness of assumptions etc.

No reliance may be placed for any purpose whatsoever on the information, representations, estimates or opinions contained in this note, and no liability is accepted for any such information, representation, estimate or opinion. All opinions and estimates included in this report are subject to change without notice. This note is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

In some cases, this research may have been sent to you by a party other than SPA, and if so, the contents may have been altered from the original, or comments may have been added, which may not be the opinions of SPA. In these cases SPA is not responsible for this amended research.

The investments discussed in this report may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. Where investment is made in currencies other than the currency of the investments, movements in exchange rates will have an effect on the value, either favourable or unfavourable.

This note is intended only for distribution to Professional Clients and Eligible Counterparties as defined under the rules of the Financial Conduct Authority and is not directed at Retail Clients.

Distribution of this note does not imply distribution of future notes covering the same issuers, companies or subject matter.

SPA has put in place a number of measures to avoid or manage conflicts of interest with regard to the preparation and distribution of research. These include (i) physical, virtual and procedural information barriers (ii) a prohibition on personal account dealing by analysts and (iii) measures to ensure that recipients and persons wishing to access the research receive/are able to access the research at the same time.

You are advised that SPA and/or its partners and employees may have already acted upon the recommendations contained herein or made use of all information on which they are based. SPA is or may be providing, or has or may have provided within the previous 12 months, significant advice or investment services in relation to some of the investments concerned or related investments.

SP Angel Corporate Finance LLP is a Company registered in England and Wales with Company number OC317049 and its registered office is SP Angel Corporate Finance LLP, 35 – 39 Maddox Street, London W1S 5PP United Kingdom. SP Angel Corporate Finance LLP is Authorised and Regulated by the Financial Conduct Authority whose address is 25 The North Colonnade, Canary Wharf, London E14 5HS and is a Member of the London Stock Exchange plc.

SP Angel Corporate Finance LLP definition of research ratings:

Expected performance over 12 months: Strong Buy - Expected return of greater than +100% Buy - Expected return of greater than +15%, Hold - Expected return from -15% to +15%, Sell - Expected return of less than -15%

*SP Angel acts as research provider to Eco (Atlantic) Oil & Gas