LONGBOAT ENERGY PLC (AIM: LBE)

November 22, 2021

Share price: £0.68
Target: £1.20

Initiating Coverage: Longboat Energy plc

Proven model. Experienced team. Committed geography.

Longboat Energy is a £40 mm market cap explorer with **gas weighted** assets in Norway listed on AIM since late 2019. Illustrated by what the founders of Longboat achieved with Faroe Petroleum, a pure exploration strategy can be very successful. However, in the current challenging context for oil and gas, to be successful requires some very specific features that are embedded in Longboat: (1) **multiple**, **independent, funded** **high impact** wells; (2) fiscal terms and geology that minimize capital exposure and maximize the chance of success; and (3) a vibrant environment, such as Norway, that is supportive of low emission hydrocarbons and enables even small companies to develop large discoveries. Longboat's first 3 wells have already made three discoveries. With the remaining 4 wells targeting 75-265 mmboe of net unrisked resources by YE22, we have set our target price in line with our ReNAV at £1.20 per share, representing ~75% upside to the current share price.

Successful team looking to do it again

Longboat is managed by the same team that ran Faroe Petroleum. Faroe started as a North Sea focused pure explorer. Material discoveries and value enhancing acquisitions turned Faroe into a 17 mboe/d producer (2P: ~98 mmboe) which was eventually sold to DNO for ~US$900 mm.

Attractive location to explore. Conducive environment

Since 2004, 78% of exploration spend is repaid by the Norwegian State through a cash tax rebate. This has drastically reduced exploration costs and has triggered a wave of discoveries. With the geology better understood and more infrastructure available, exploration success has increased to >60% and the threshold for a commercial discovery has dropped to 10-40 mmboe. While this should have attracted capital to exploration, the combination of COVID-19 and energy transition considerations has instead led to a prioritization of production and development activities. This has allowed Longboat to assemble a portfolio of high quality assets on very attractive terms. In addition, with continued commitment from the government of Norway and proposed changes to the fiscal terms incentivizing developments which reduce the financial hurdles on new projects for small companies, Longboat will have the choice to develop any discovery on its own or to rely on a vibrant domestic asset market to find an industry partner post discovery.

Value build-up

Having raised ~£85 mm from shareholders and an exploration finance facility, Longboat is fully funded for its 7 well programme to YE22. The Egyptian Vulture well has already encountered 3-9 mmboe (net) with an upside case of >16 mmboe on only a 25% recovery factor. The unrisked value of Longboat's shares based on this programme is £4.50- £14.20/sh.

Rating & target		Old	New
Target		n.a	£1.20
Yield			0%
Implied total return			76%
Share data	**2020**	**2021e**	**2022e**
Shares dil., mm	24	64	64
Mkt cap, US$m	$21	$60	$59
EV, US$mm	$12	$17	$86
Financial data	**2020**	**2021e**	**2022e**
Gas, mmcf/d	0.0	0.0	0.0
Liquids, bbl/d	0	0	0
Total boe/d (6:1	0	0	0
CFO, US$mm	($3)	($3)	($8)
Net capex, US$	$0	$25	$43
Net debt, US$m	($9)	($43)	$27
CFPS dil., US$/s	($0.01)	($0.05)	($0.13)
EPS dil., US$/sh	($0.02)	($0.05)	($0.79)
Valuation	**2020**	**2021e**	**2022e**
Share price, £/s	£0.68	£0.68	£0.68
EV/DACF	n.a.	n.a.	n.a.
EV per boe/d	n.a.	n.a.	n.a.
Net asset value			
CNAV, £/shr			£0.29
RENAV, £/shr			£1.21
Unrisked NAV, £/shr			£4.50
P/CNAV			2.3x
P/RENAV			0.6x
P/Unrisked NAV			0.2x

All figures in US$ unless otherwise noted

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Figure 1. Financial & operating information

Longboat Energy plc (LBE)		**Historical & Auctus Advisors Outlook**					
Financial & Operating Information		**2020**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**
Commodity Prices							
Brent	US$/bbl	$41.26	$70.12	$65.00	$65.00	$65.00	$65.00
UK NBP	US$/mcf	$5.41	$14.01	$18.48	$14.00	$8.00	$8.00
USD/CAD	US$/C$	$0.75	$0.75	$0.75	$0.75	$0.75	$0.75
USD / GBP	US$/£	1.282	1.368	1.358	1.400	1.400	1.400
Production							
Oil and Liquids	bbl/d	0	0	0	0	0	0
Natural Gas	mmcf/d	0	0	0	0	0	0
Total (6 mcf = 1 boe)	boe/d	0	0	0	0	0	0
% Oil and Liquids	%	0%	0%	0%	0%	0%	0%
Netbacks							
Realized Price	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Royalties	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Production Costs	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Operating Netback	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Taxes	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cash Flow Netback	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Government Take	%	0%	0%	0%	0%	0%	0%
Financials							
Cash Flow (CFO)	US$mm	($3)	($3)	($8)	($8)	($8)	($8)
CFPS - diluted	US$/shr	($0.01)	($0.05)	($0.13)	($0.13)	($0.13)	($0.13)
EBITDAX a	US$mm	($3)	($5)	($8)	($8)	($8)	($8)
E&D Capex	US$mm	$0	$25	$43	$0	$0	$0
A&D Capex, Net	US$mm	$0	$0	$0	$0	$0	$0
Cash exploration tax rebate	US$mm	$0	$26	$0	$51	$6	$0
Total Net Capex	US$mm	$0	$25	$43	$0	$0	$0
Total Net Capex/CFO	x	0.0x	-8.8x	-5.2x	0.0x	0.0x	0.0x
Leverage							
Net Debt	US$mm	($9)	($43)	$27	($15)	($13)	($5)
Net debt/CFO (Trailing)	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Entry Net Debt/CFO	x	n.a.	n.a.	n.a.	($3)	n.a.	n.a.
Capital Structure							
Basic Shares o/s @ YE	mm	10	57	57	57	57	57
Diluted Shares o/s @ YE	mm	24	64	64	64	64	64
Market Capitalization	US$mm	$21	$60	$59	$61	$61	$61
Enterprise Value	US$mm	$12	$17	$86	$46	$48	$56
Dividends & Sustainability							
Dividends	US$mm	0	0	0	0	0	0
Dividends	£/shr	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Dividend Yield	%	0%	0%	0%	0%	0%	0%
Free Cash Flow	US$mm	($3)	($28)	($51)	($8)	($8)	($8)
Cash Use/CFO	%	0%	-881%	-522%	0%	0%	0%
Performance							
Prod. Per Shr Growth (Y/Y) - dil	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
PPS Growth (Y/Y) DDA - dil. b	%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CFPS Growth (Y/Y) - dil.	%	n.a.	n.a.	n.a.	0%	0%	0%
CFPS Growth (Y/Y) DDA - dil. b	%	n.a.	n.a.	-27%	-7%	-6%	-6%
ROCE	%	0%	n.a.	n.a.	n.a.	n.a.	n.a.
Net Asset Value c							
CNAV (Atax) - diluted	£/shr	£0.29					
RENAV (Atax) - diluted	£/shr	£1.21					
Unrisked NAV (Atax) - diluted	£/shr	£4.50					
P/CNAV	x	2.3x					
P/RENAV	x	0.6x					
P/Unrisked NAV	x	0.2x					
Valuation		**2020**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**
Share Price, YE/Current	£/shr	£0.68	£0.68	£0.68	£0.68	£0.68	£0.68
P/CF	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV/DACF	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Target EV/DACF	x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV per boe/d	$/boepd	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV per 2P boe	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EV per 2P boe, with FDC	US$/boe	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a) EBITDAX = Pre-Int. & Pre-Tax Cash Flow; b) DDA = Debt-and-Dividend-Adjusted

c) CNAV incl. 2P reserves, RENAV incl. 2P reserves + Risked LT inventory upside, ENAV incl. 2P reserves + Unrisked LT inventory upside

Source: Auctus advisors, Company Disclosures **Futures strip as of 19-Nov-21

From first class explorer to full cycle E&P

Repeating a successful strategy

Longboat was founded and listed on the London Stock Exchange in 2019 raising £10 mm to fund business development to lead to acquisitions in the North Sea and particularly Norway. Earlier that year the founders of Longboat had sold Faroe Petroleum to DNO for US$900 mm.

Faroe started as a spin off from Dana Petroleum to be the Faroese and West of Shetland exploration arm of its parent. Faroe assembled a portfolio of exploration assets in the UK and from 2006, in Norway. From 2010 to 2018 the company made 10 discoveries, including the large Pil/Bue/Boomerang complex. M&A activity was another important leg of the company's strategy. Swapping discoveries Faroe had made in return for producing assets was a particularly innovative way to add reserves and grow production while limiting dilution. By the time Faroe was sold, the company held 98 mmboe of 2P reserves and was producing ~17 mboe/d.

The intention of the Longboat management team is to replicate the strategy and the success of Faroe, albeit the team intended to start with production acquisitions. While there have been many pure explorers listed on AIM, the more recent focus on production and increasing ESG pressures have reduced the number of AIM-listed pure explorers to a handful. Ironically, with fewer exploration wells being drilled across the industry, the quality of the high graded prospects is better, leading to explorers being more successful in partnering with quality industry participants. The price of exploration assets is also very low, as many full cycle E&Ps focus on development and producing assets, where values remain high, especially in certain jurisdictions such as Norway.

In 2Q21, Longboat took advantage of the prevailing low prices attributed to exploration assets to farm into a seven exploration well programme in Norway through three transactions with Equinor, Idemitsu and Spirit Energy. At the same time Longboat raised £35 mm of new equity and secured access to a £52 mm exploration finance facility (EFF).

Compared to other pure play explorers listed on AIM, Longboat is differentiated in five key ways that are very important in the context of capital scarcity and the reduced level of industry activity.

- Multiple near term, independent and material committed wells with first class partners (and operators). The seven wells in the Longboat drilling programme are already sanctioned with the first three wells having already seen three discoveries made, including the potentially very large Egyptian Vulture discovery. The remaining four exploration wells will be drilled by YE22. Each well is located on a different licence, targeting a different play. Some of the plays and prospects are very well known to Longboat. The smallest remaining prospect holds ~4 mmboe prospective resources (net to Longboat), which would be material in the context of a £40 mm market cap company. We also note that Equinor has retained an interest in five out of six of these licences and operates four. Var (Eni) and Aker BP operated two of the wells drilled to date. In the context of reduced exploration activity across the industry, this is a testimony to the quality of the portfolio. Several of Longboat's peers on AIM have only 1 or 2 well opportunities in their programme and many do not have a blue chip partner.

- Funding in place to deliver all the programme.

- Gas weighted (~75%) portfolio of assets, which is likely to (1) broaden the number of investors that can invest in the company and/or (2) increase the number of potential counterparties for corporate or asset transactions.

- Very attractive geography with high probabilities of success. In addition, with Norway's hydrocarbon production recognized as having some of the lowest carbon intensity globally, the country remains committed to the sector. This gives confidence to industry participants to acquire development assets, particularly when located close to existing infrastructure (as is the case for most of Longboat's assets).

- The recently proposed tax changes are expected to boost further the attractiveness of undeveloped assets. These changes would incentivize and stimulate all near field activities (exploration and development) rather than just exploration (as it is the case today). In addition, while having access to the vibrant asset market in Norway would be important for small companies to take their discoveries to production, with the proposed new fiscal terms, this is not the only way forward anymore. The new fiscal incentives, which significantly reduce required working capital, would allow smaller companies to fund development projects. In the past, the high level of development capital required had been an issue for smaller companies such as Faroe as it prevented them from maximizing the value of their development assets. The proposed changes will put smaller companies in a much stronger position than in the past.

Overview of the new portfolio of assets

Longboat's assets consist of the following assets:

- 15% WI in Egyptian Vulture discovery with Equinor as operator.

- 20% WI in the Rodhette discovery with Var (Eni) as operator

- 9% WI in Ginny/Hermine with Equinor as operator,

- 10% WI in Kveijke with Equinor as operator,

- 20% WI in the small Mugnetind with Aker BP as operator,
- 25% WI in Cambozola with Equinor as operator,
- 10% WI in Copernicus with PGNiG as operator.

Figure 2. Longboat's asset locations

Source: Company

Figure 3. Longboat's prospects and resources

Prospect	WI	Partners	Operator	WI Prospective Resources (mean) mmbbl	WI Prospective Resources (upside) mmbbl
Egyptian Vulture	15.0%	Equinor, PGNiG	Equinor	3	9
Rodhette discovery	20.0%	Equinor, Concedo, Var	Var	2	2
Ginny/Hermine	9.0%	Equinor, Harbour, OKEA	Equinor	6	12
Kveikje	10.0%	Equinor, DNO, Idemitsu	Equinor	4	8
Mugnetind	20.0%	Aker BP, DNO	Aker BP	1	2
Cambozola	25.0%	Equinor, Petroro, Spirit	Equinor	40	200
Copernicus	10.0%	Equinor, PGNiG	PGNiG	25	47
Total				**81**	**281**

Source: Company, ERC Equipoise

The special case of Norway

Exploration bonanza

The combination of (1) fiscal terms incentivising companies to explore, (2) the fact that Norway has been relatively less explored than some other basins and (3) the widespread use of state of the art technology has made Norway a highly attractive destination for explorers where giant fields are still being discovered. As an illustration, in 2012, Lundin discovered the giant Johan Sverdrup field with 1.9-3.0 bnbbl and production expected to reach 720-755 mbbl/d at plateau.

The fiscal terms for explorers are particularly attractive given that explorers currently receive a 78% cash tax rebate in case of unsuccessful exploration. For small explorers without earnings or cashflow, this means that the government reimburses 78% (in cash) of all exploration costs, including the cost of a dry hole, and associated spend the year after they are incurred. Very low cost debt funding is available to bridge that time period between spend and the Norwegian Government's rebate. This means that the cost to make a discovery is drastically reduced, more than offsetting the high drilling costs typical in offshore Norway. Assuming, for instance, a discovery size of 30 mmbbl with a 33% chance of success and individual well cost of US$30 mm, the costs to make a discovery in Norway would only be ~US$0.66/boe versus ~US$3.0/boe without the Norwegian fiscal incentives.

Figure 4. Illustrative impact of Norway fiscal terms on exploration cost

	Discovery size (mmbbl)	Drilling Chance of Success	Well cost (US$ mm)	Net Well cost to explorer (US$ mm)	Total drilling cost to make a discovery	Exploration cost (US$boe)
No exploration incentive	30	33%	30	30	91	3.03
Norway (1)	30	33%	30	7	20	0.66

Source: Auctus

With the reduction of exploration budgets, fewer prospects are being drilled with a more stringent selection process. This has resulted in a very high exploration success >60% over the last two years.

Figure 5. Exploration historical chances of success in Norway

				Volume estimates boe		E/A?	Discovery
Date	Licence	Well	Op	Low	High		Y/N
08-Jan-20	PL894	6604/6-1	WinDEA			E	N
14-Jan-20	PL917	25/7-8 S	COP	7	35	E	Y
12-Feb-20	PL917	25/7-9 S	COP			E	N
26-Feb-20	PL894	6604/5-2 S	WinDEA	22	62	A	Y
02-Mar-20	PL025	15/3-12 S + A	Equinor	7	19	E	Y
18-Mar-20	PL820S	25/8-19 + S	MOL	14	76	E	Y
06-Apr-20	PL1008	6506/5-1 S	AkerBP	7	17	E	Y
07-Apr-20	PL836	6406/3-10	WinDEA	28	104	E	Y
24-Apr-20	PL889	6507/8-10 S	Neptune			E	N
30-Apr-20	PL053	30/6-31 S	Equinor			E	N
18-May-20	PL827S	35/10-6	Equinor			E	N
06-Jul-20	PL719	7321/8-2 S	Spirit			E	N
08-Jul-20	PL878	30/2-5 S	Equinor	21	69	E	Y
14-Jul-20	PL089	34/7-E-4 AH	Equinor	6	10	E	Y
28-Jul-20	PL644	6506/11-12 S	OMV	14	48	A	Y
31-Jul-20	PL532	7219/9-3	Equinor			E	N
05-Aug-20	PL780	16/1-33 S	Spirit			E	N
05-Aug-20	PL882	34/4-15 S + A	Neptune	46	131	E	Y
18-Sep-20	PL829	6204/11-3	Wellesley			E	N
29-Sep-20	PL248C	35/11-24 S + A	Equinor	14	41	E	Y
28-Oct-20	PL586	6406/12-G-1 H	Neptune	3	22	A	Y
02-Nov-20	PL263D	6407/1-8 S	Equinor	3	11	E	Y
11-Nov-20	PL1009	6507/4-1	COP	55	207	E	Y
12-Nov-20	PL127C	6607/12-4 + A	AkerBP	10	26	E	Y
19-Nov-20	PL609	7221/4-1	Lundin			E	N
04-Dec-20	PL960	7018/5-1	Equinor			E	N
08-Dec-20	PL089	34/7-37 S	Equinor			E	N
22-Dec-20	PL891	6507/5-10 S	COP	83	221	E	Y
02-Feb-21	PL533	7219/11-1	Lundin			E	N
05-Feb-21	PL923	31/1-2 S + A	Equinor	48	76	E	Y
10-Feb-21	PL617	2/9-6 S	MOL			E	N
10-Mar-21	PL532	7220/7-4	Equinor	35	55	E	Y
24-Mar-21	PL090I	31/2-22 S + A	Equinor	83	131	E	Y
26-Mar-21	PL359	16/4-13 S	Lundin	3	10	E	Y
29-Mar-21	PL973	15/12-25	Chyrsaor	7	14	E	Y
30-Mar-21	PL882	34/4-16 S	Neptune	44	117	A	Y
10-May-21	PL973	15/12-26	Chyrsaor			E	N
20-May-21	PL211	6507/4-2 S	WinDEA	76	173	E	Y
01-Jun-21	PL722	7322/6-1 S	Equinor			E	N
10-Jun-21	PL090	35/11-25 S	Equinor			E	N
10-Jun-21	PL090	35/11-25 A	Equinor			E	N
14-Jun-21	PL554	34/6-5 S	Equinor	9	25	E	Y
21-Jun-21	PL027	25/8-20 S	Var Energy			E	Y
21-Jun-21	PL027	25/8-20 B	Var Energy	62	145	E	Y
21-Jun-21	PL027	25/8-20 C	Var Energy			A	Y
07-Jul-21	PL785S	31/11-1 S	Equinor			E	N
12-Jul-21	PL970	1/3-13	OMV			E	N
20-Jul-21	PL858	7234/6-1	Aker BP	11	14	E	Y
29-Jul-21	PL820S	25/8-19 S	MOL			A	Y
29-Jul-21	PL820S	25/8-21 S	MOL	14	76	E	Y
29-Jul-21	PL820S	25/8-22 S	MOL			E	Y
Total discovered 2020-2021				***731***	***1933***		
Success % 2020						***57%***	
Success % 2021						***65%***	
Success % 2020-2021						***61%***	

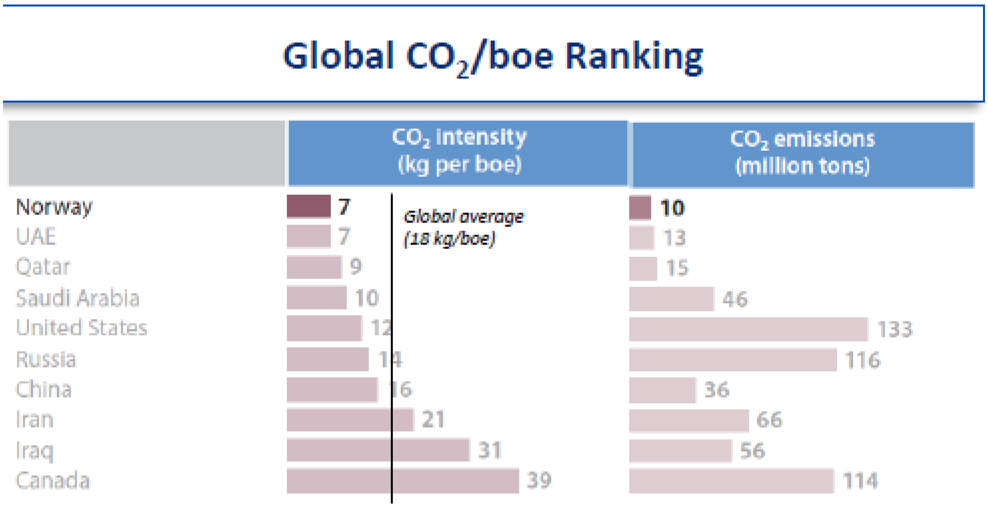
Source: NPD

Vibrant and committed to hydrocarbon

The hydrocarbon industry is core to Norway's economy. The country is ahead of the game with regards to reducing scope 1 and 2 emissions associated with its hydrocarbon production. For instance, the country is committed to powering offshore platforms with hydro electricity and the Hywind Tampen floating wind farm will be the first of its kind to power offshore platforms.

As a result, while governments in many countries in the West are sending mixed messages with regards to the rules associated with their hydrocarbon industries, Norway has been much more consistent. While hydrogen and wind have been identified as key industries for the energy transition, the country will continue licensing rounds for oil and gas and will use these revenues to fund the transition. Having visibility is very important for the hydrocarbon industry and goes a long way to explain the continued relatively high level of interest for investing in the country.

Figure 6. Emissions associated with hydrocarbon production



Source: NPD Exploration Resource report 2020

Since the beginning of the COVID-19 pandemic, despite the background of increased pressure from energy transition considerations, there have several been large transactions in Norway. In March 2021, Ineos announced the divestment of its 117 mmboe portfolio to PGNiG for US$615 mm. This followed the announcement in September 2020 of PGNiG's acquisition of interests in Kvitebjørn and Valemon from Shell.

There also continues to be transactions for undeveloped resources often driven by the opportunity to add near term production to existing nearby infrastructure.

Figure 7. Transactions in Norway for development/appraisal assets

Selected NCS Discovered Resource Transactions						
					2P/C	
Date	Buyer	Seller	Asset	$MM	mmboe	$/boe
30-Dec-20	Sval	Edison	Corporate*	86	25	3.5
06-Oct-20	Lundin	Idemitsu	Barents portfolio	125	70	1.8
28-Nov-19	Sval	Cairn NOR	Corporate	100	29	3.5
07-Nov-19	Sval	Pandion	Duva (10%)	51	9	6.0
07-Nov-19	PGNiG	Pandion	Duva (10%)	51	9	6.0
06-Aug-19	ONE-dyas	Cairn	Nova (10%)	60	8	7.8
28-Jan-19	Lundin	Lime	Rolsvnes (30%)	45	14	3.3
18-Oct-18	PGNiG	Equinor	Tommeliten Alpha	220	52	4.2
15-Oct-18	AkerBP	Equinor	King Lear	250	77	3.2
28-Jun-18	Neptune	VNG	Corporate	330	70	4.7
12-Feb-18	Suncor	Faroe	Fenja (17.5%)	55	17	3.2
					Average	**4.3**
					Volume Weighted Average	**4.1**

Source: Company disclosures

** Asset value caculated net of historic tax balances*

Reflections on the proposed tax changes

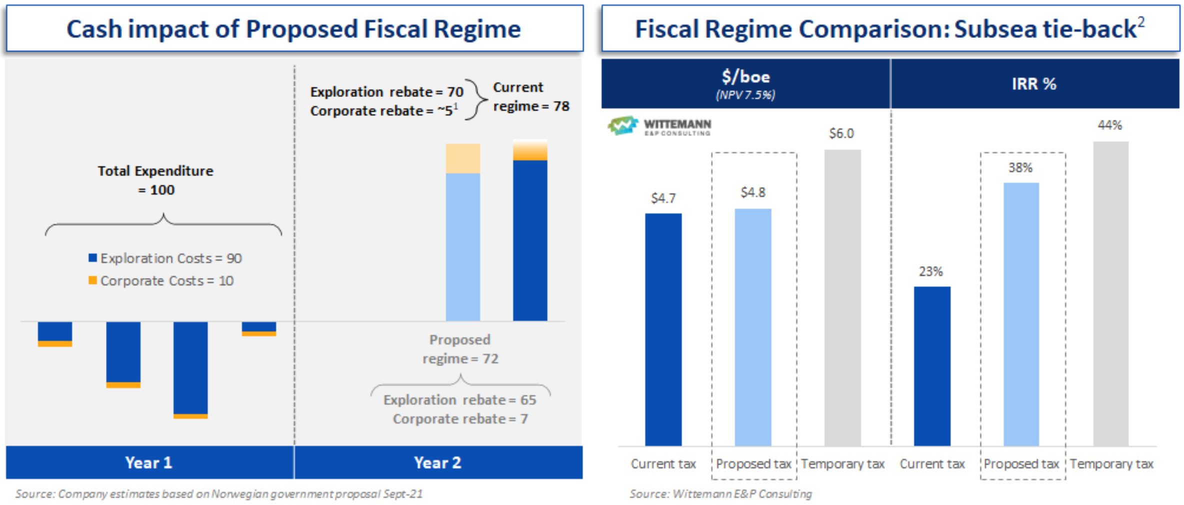
In 3Q21, the Norwegian government announced its intention to change the country's fiscal terms for oil and gas. While the headlines highlighted a reduction of the exploration tax rebate from 78% to 71.8%, the fine print suggests that the changes for explorers are minimal while there are important incentives to develop discoveries close to existing infrastructure. In simple terms, the proposed changes would incentivize and stimulate all near field activities (exploration and development) rather than just exploration (as it is the case today).

The proposed 71.8% cash tax rebate will apply to all losses, rather than just exploration spending, and will be refunded in cash the year following the losses are incurred. The residual losses (6.2%) will be carried forward until profitability. On a total expenditure of US$100 mm, the new regime would suggest US$72 mm cash refund versus US$78 mm under the current regime.

Importantly for discoveries, while the investment uplift has been removed, the 71.8% cash rebate on all losses means that a very large proportion of capital expenditure can be expensed in one year rather than depreciated over six years of production. Given the very high cost of capital in the E&P industry, this has important positive implications on the attractiveness of undeveloped discoveries and lowers the risk, as 71.8% of the annual spend is rebated before a development project is on stream. Typical IRRs on subsea tie-backs are estimated to be boosted from 23% to 38%.

The proposed changes also significantly reduce the financial hurdles for smaller companies to develop their discoveries. With 71.8% of incurred cost reimbursed by the State within one year, the required working capital for a development is materially reduced. There are ongoing discussions with the Norwegian authorities to allow the cash tax receivables to be used as a pledge for low cost debt facilities (in line with the current EFFs). If this is approved, this would reduce the capital requirements further as the cash tax rebate could be effectively brought forward with a low single digit cost of capital. If this is not approved, smaller companies will likely need to access the marginally more expensive bond markets.

Figure 8. Proposed Norwegian tax change impact



The proposals for a new tax regime can be summarised as follows:

- The total marginal tax rate remains the same at 78 per cent;
- The Special Petroleum Tax ("SPT") will increase to 71.8 per cent (from 56 per cent) but Corporation Tax (22 per cent) will become fully deductible from the SPT and the uplift on investments will be removed;
- The current exploration refund at 78% will cease to exist and the Company will instead receive the tax value of losses (including exploration costs) refunded in cash at the revised SPT (71.8 per cent) in the year after incurrence (to the extent these generate tax losses);
- The remaining corporation tax element (6.2 per cent) will be carried forward to be set off against future profits from production; and
- There are no changes proposed to the temporary tax regime introduced in 2020 and effective until the end of 2021.

Longboat has provided feedback to the consultation process that ends in early December, and the authorities have indicated they will consider including a system for pledging tax loss settlements to the lending banks in a similar arrangement as is currently in place for the exploration tax cost refund scheme. Longboat has made a preliminary assessment of the impact of the proposed tax changes, which effectively increase the equity funding requirement of exploration costs from 22 to 28.2 per cent, and believes the Company remains funded for its exploration programme. This assumes that details of the new tax regime will be clarified early in 2022 and that the Exploration Finance Facility shall be amended to reflect the same enabling the company to pledge and borrow against the proposed tax refund in the same ratio as the existing exploration tax refund. However, the company is still awaiting confirmation from the Government on the ability to pledge the refund and the timing of the implementation of the proposed tax changes. The Company reported the need for the new regime to contain a pledge noted this as a material uncertainty in its interim accounts.

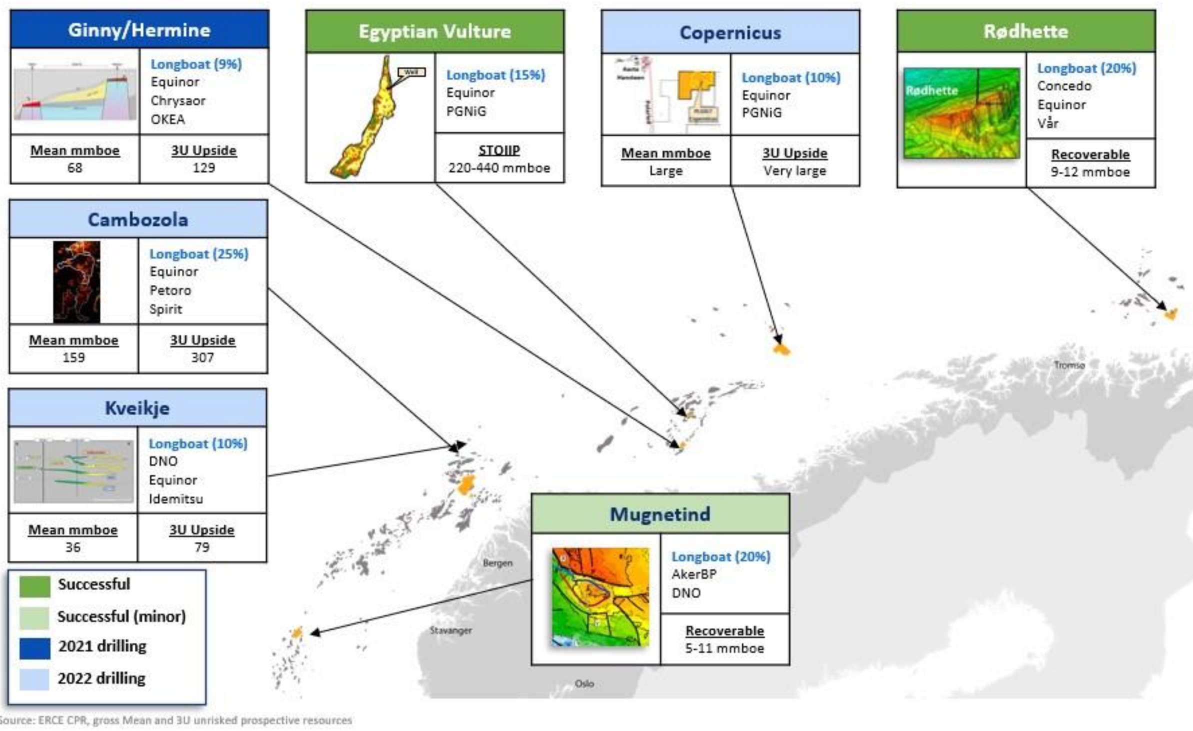
Catalyst-rich portfolio of assets

Longboat acquired interests in the seven exploration wells through three transactions in June 2021 in return for a US$35 mm gross carry to the sellers (US$7.8 mm after the Norwegian cash tax rebate). The core transaction was with Equinor through which Longboat acquired interests in six wells. Longboat acquired a further 20% interest in Cambozola from Spirit Energy (taking the company's WI to 25%) and a 10% interest in Kveikje from Idemistu.

Out of the three discoveries made by the first three wells drilled so far, the most material is Egyptian Vulture with 19-63 mmboe of light oil with upside. The Rodhette well encountered 9-12 mmboe of natural gas. Rodhette will probably have to be developed jointly with other discoveries and we note that there are many discoveries in the area that are currently being considered for development given the current very high gas prices. The Mugnetind well with 5-11 mboe recoverable resources is unlikely to be commercial. Cambozola and Copernicus are the largest prospects (and the riskiest) and will be drilled at the end of the campaign while Kveikje and Mugnetind carry the lowest risk.

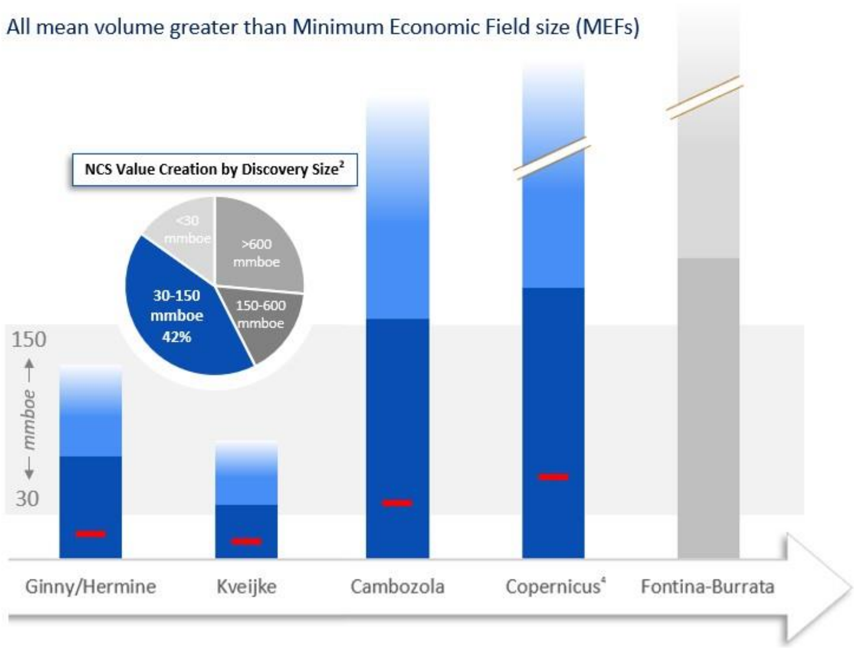
We also note that all the prospects held by Longboat have a mid-case size well above their respective economic thresholds.

Figure 9. Wells locations



Source: Company

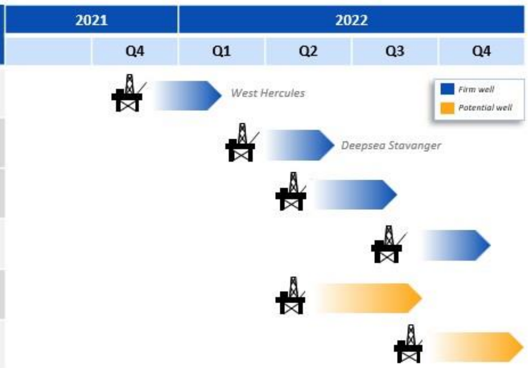
Figure 10. Economic thresholds of Longboat's prospects



Source: Company

Figure 11. Drilling schedule

Prospect	Operator	LBE WI%	Gross/Net Well Cost[1]	Gross/Net Resources	Risk
Ginny/Hermine	Equinor	9%	$25/$2	68/6	27/22%
Kveikje	Equinor	10%	$31/$3	36/4	55%
Cambozola	Equinor	25%	$64/$16	159/40	15%
Copernicus	PGNiG	10%	$38/$4	254/25	26%
Appraisal 1					
Appraisal 2					



Source: Company

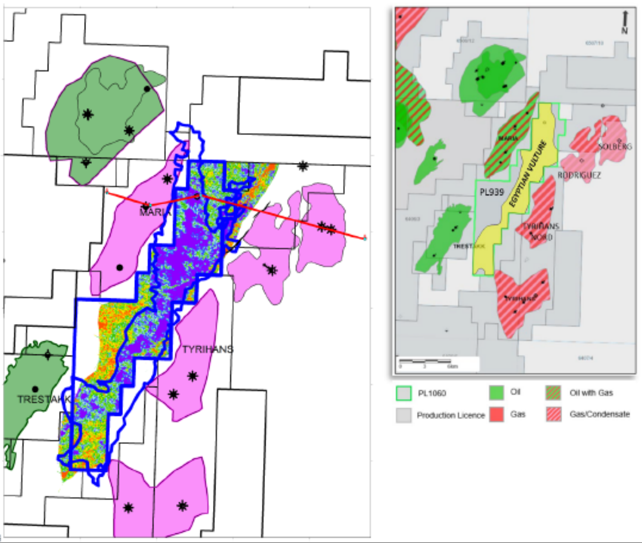
Egyptian Vulture

The Egyptian Vulture well (Longboat WI: 15%), operated by Equinor, encountered 220-440 mmboe gross very light oil-in place (with a high GOR) in the Lower Cretaceous Intra-Lange formation. The discovery well found a 13 metre net sand in a 37 metre oil filled gross interval. Porosities are estimated at ~16% but the upper part of the Lange sand interval has high net to gross ration. The oil water contact has not been encountered yet. Equinor currently estimates a recovery factor of only ~10-15% pending a flow rate result. This results in 19-63 mmboe resources being recoverable (3-9 mmboe net to Longboat). Applying a 25% recovery factor could double the amount of recoverable resources to 110 mmboe (gross), equating to 16 mmboe net to Longboat.

The discovery could be tied-back to Kristin via the neighbouring Tyrihans facilities (10 km immediate to the south).

Figure 12. Egyptian Vulture

Egyptian Vulture AVO Anomaly



Gross Mean (mmboe)	Gross Upside (mmboe)	Oil/Gas (%)	Risk (%)
103	208	36/64%	25%

Source: ERCE CPR

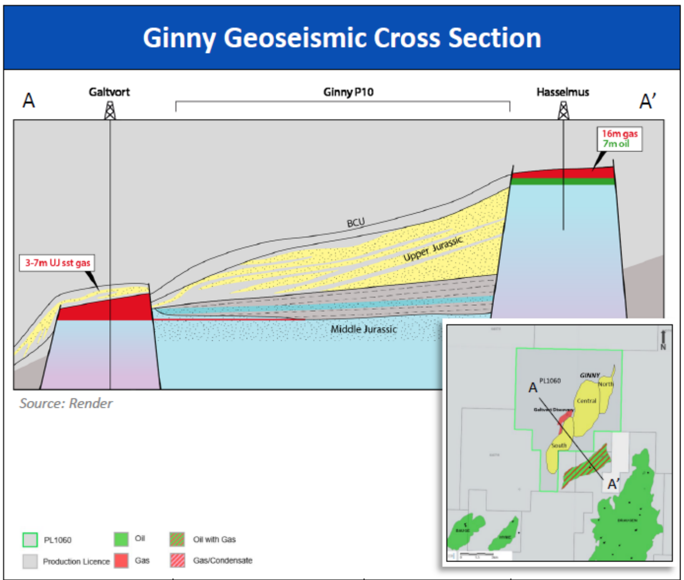
Ginny/Hermine

The Ginny (41-84 mmboe) and deeper Hermine (27-45 mmboe) prospects will be targeted by a single well. The prospects are analog to the Pil and Bue (Fenja) discoveries made by Faroe. Equinor is the operator with Longboat holding 9% WI. Discoveries could be developed through the Njord or Draugen platforms (also operated by Equinor).

Ginny and Hermine are likely to be gas prospects with the Galtvort wells discovering gas in the Ginny sands just downdip. The upside case (84 mmboe gross resources at Ginny alone) would be confirmed if the fault on the east of the Ginny prospect is sealing.

The well cost is estimated at US$25 mm.

Figure 13. Ginny/Hermine



	Gross Mean (mmboe)	Gross Upside (mmboe)	Oil/Gas (%)	Risk (%)
Ginny	41	84	12/88%	27%
Hermine	27	45	12/88%	22%

Source: ERCE CPR 15

Kveikje

The Kveikje prospect is an injectite play (similar to the Catcher field in the UK) with 36-79 mmbbl prospective resources. The prospect is located near the recent Rover North discovery and is analogous to multiple recent successes in the Alvheim-Frosk area. Longboat holds 10% WI in the licence and Equinor is the operator. The chance of success of the well is very high (55%) given the very strong AVO anomaly visible on seismic.

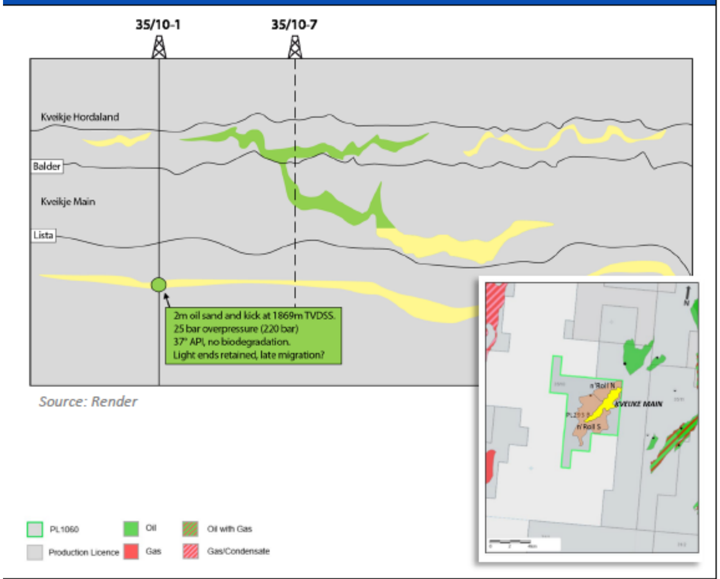
With injectite plays, typically ~40% of the volume of oil is not visible on seismic and the upside case already suggests twice the volume of the base case. The overall reservoir thickness estimates appear to be very conservative in the context of similar wells drilled on the fairway.

The key risks for both Kveikje Main and Kveikje-Hordaland are in the trap presence and the seal integrity.

Kveikje could be developed through the Fram infrastructure and gross well cost is estimated at US$31 mm.

Fig.14. Kveikje

Kveikje Geoseismic Cross Section



Gross Mean (mmboe)	Gross Upside (mmboe)	Oil/Gas (%)	Risk (%)
36	79	97/3%	55%

Source: ERCE CPR

Source: Company

Cambozola

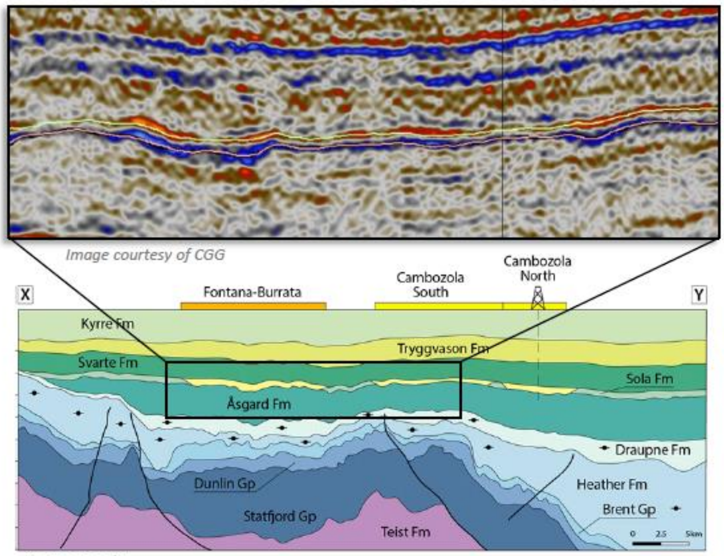
Cambozola is a play opener and as a result carries a higher risk. The play consists of a stratigraphic trap with a structural element. Equinor is the operator and Longboat holds 25% WI. The initial prospect is estimated to hold 159 mmboe (mostly gas) with an upside case of 307 mmboe. A success would derisk the follow-on Fontina-Burrata prospect with 279 mmboe prospective resources (mean).

The reservoir has not been penetrated yet in the basin but the Cambozola prospect is surrounded by discoveries. The key risks are related to reservoir presence/quality and trap.

The gross cost of the well is estimated at US$64 mm. A discovery could be developed through the Kvitebjorn infrastructure.

Fig.15. Cambozola

Cambozola Seismic Cross Section



Source: Render

Gross Mean (mmboe)	Gross Upside (mmboe)	Oil/Gas (%)	Risk (%)
159	307	18/82%	15%

Source: ERCE CPR

Source: Company

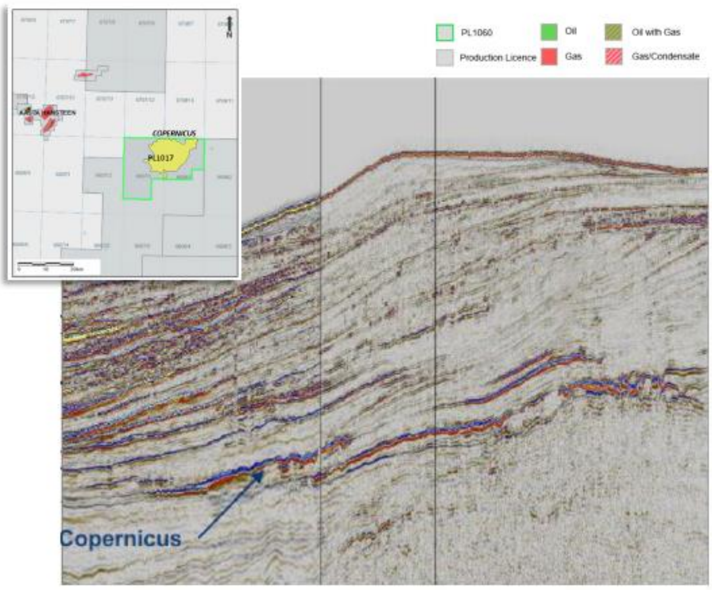
Copernicus

Copernicus is another play opener with 254-471 mmboe prospective resources (most likely gas) and is also higher risk. Longboat holds 10% WI with PGNiG as operator. The prospect benefits from a high amplitude response and reservoir quality is expected to be high. The well will be spudded in 2H22.

The gross cost of the well is estimated at US$38 mm. A discovery would be tied-back to the Aasta Hansteen Field and Polarled gas pipeline.

Fig.16. Corpernicus

Significant potential with follow up



Gross Mean (mmboe)	Gross Upside (mmboe)	Oil/Gas (%)	Risk (%)
254	471	3/97%	25%

Source: ERCE CPR

Valuation and financials

Valuation

Our ReNAV for Longboat stands at £1.21 per share. This is based on the company's financials and our estimate of the risked value of the exploration portfolio. In the event of a discovery, Longboat will either look for a farm-in partner to finance development or will look to trade the discovery for production. As a result we have used an unrisked value of US$4.3/boe (in line with the average of the recent transaction metrics in Norway) for discovered undeveloped resources. We have applied this figure to the net mean prospective resources. We deduct from our ReNAV the G&A for the business over the duration of the drilling programme, assuming some form of monetization will take place at the end of the drilling programme.

We have kept the chance of success attributed to each prospect by the resources auditors (15-55%). We however note that this is well below the last two years industry average in Norway (>60%).

Applying industry average chance of success would lead to a ReNAV of ~£2.65 per share.

Our Unrisked NAV for the company on the resources base case is ~£4.50 per share with an upside case of ~£14.20 per share on the resources upside case.

We have used our estimates of net debt at YE22 (excluding the Norway tax rebate) to which we have added the value of the Norway tax rebate (we have assumed the new fiscal terms would be enacted from 01/01/2022 with a 72% tax rebate on all losses including gross capex of ~£65 mm including £25 mm of carry).

Figure 17. NAV10 Table (as of YE22)

Asset Valuation	WI Reserves and Resources (mmboe)	CoS (%)	Unrisked (US$mm)	EMV (US$mm)	£/Share (Risked)	£/Share (Unrisked)	% Total
Net Cash/Debt YE22			-27	-27	-0.31	-0.31	-25%
Exploration Tax rebate YE22			50	50	0.57	0.57	47%
G&A until YE22			-14	-14	-0.16	-0.16	-13%
Egyptian Vulture	6.2	60%	26	16	0.18	0.30	15%
Total Core NAV			**36**	**25**	**0.29**	**0.41**	**24%**
Egyptian Vulture Upside	6.2	25%	27	7	0.08	0.31	6%
Rodhette	2.0	50%	9	4	0.05	0.10	4%
Mugnetind	1.6	51%	0	0	0.00	0.00	0%
Ginny/Hermine	6.1	25%	26	7	0.08	0.30	6%
Kveikje	3.6	55%	15	9	0.10	0.18	8%
Cambozola	39.8	15%	171	26	0.29	1.95	24%
Copernicus	25.4	26%	109	28	0.32	1.25	27%
Total Risked Exploration		0%	**357**	**80**	**0.92**	**4.08**	**76%**
Total			**393**	**106**	**1.21**	**4.50**	**100%**
Unrisked NAV					**4.50**		
P/Core NAV				**241%**			
P/NAV				**58%**			
P/Unrisked NAV				**16%**			

Source: Auctus Advisors, Company Reports

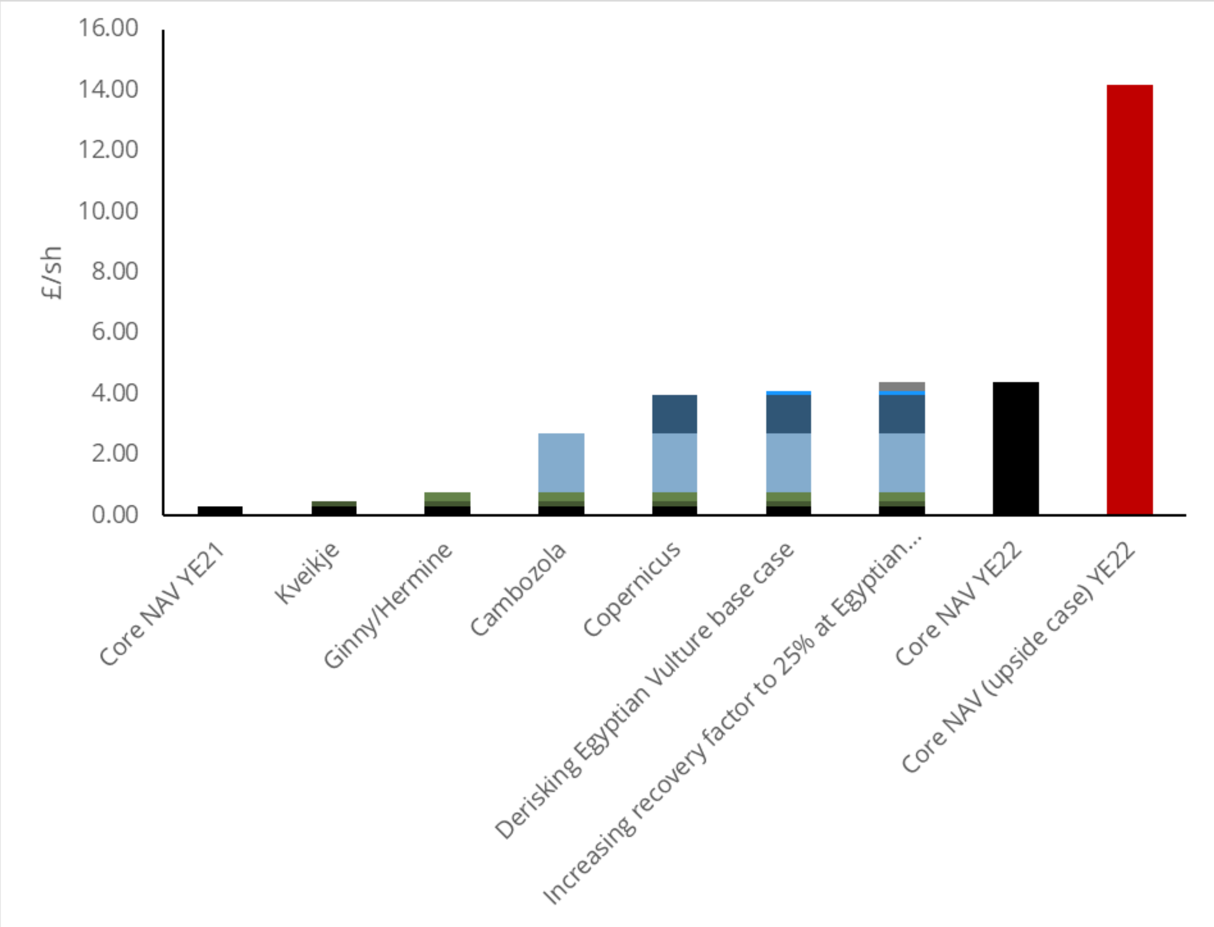
Value build-up

Our ReNAV for Longboat based on the resources auditor estimated is ~75% above the current share price.

The main catalysts by YE22 will be the drilling of four upcoming exploration wells and potentially some appraisal activities at Egyptian Vulture to firm-up the size of the discovered resources.

Overall, on the base case, the shares could be worth ~£4.50 per share by YE22 on the resources base case and ~£14.20 in the upside case.

Figure 18. Value build-up



Source: Auctus

Forecasts and assumptions

We have assumed Longboat's overall gross exploration programme at ~£65 mm until YE22 including ~£25 mm (US$35 mm) of carry. Deducting 78% for the Norway exploration cash tax rebate in 2021 and 71.8% on all losses from 2022 suggest a total net cost for the programme of ~£14.5 mm.

The company raised ~£32 mm in cash in June (£35 mm gross) through a new equity issue and £39 mm in net cash at the of June.

We assume £6 mm per year of G&A. Half of this amount for 2021 is expected to be associated with exploration activities in Norway and would benefit from the 78% tax cash rebate.

Financials

Longboat Energy has secured a NOK600 mm (~£52 mm) EFF (debt facility for exploration). The EFF is available for drawing from January 2022 until end 2023, with final maturity in 2024. The facility is secured-and-repaid by the Norwegian Government tax rebate which the company is eligible for and as such is set at a 95% loan-to-value of the potential 78% Tax rebate. The EFF therefore finances 74% of exploration expenditure, reducing the working capital Longboat requires to fund the carried interest and exploration costs associated.

In case the proposed Norwegian tax change is approved, it is anticipated that companies will have the ability to pledge the 71.8% overall tax refund as it is the case today with the Exploration tax rebate. If the effective date for the fiscal change is early 2023 rather than early 2022, this would not be a consideration for Longboat given that the initial exploration programme should be over by then.

On a £65 mm exploration programme and £6 mm annual G&A (half of which would be associated with exploration and eligible for the tax rebate), Longboat would be able to draw ~£50 mm (74%) from the EFF. Including cash in hand implies that Longboat will have access to ~£90 mm funding that will fund the company's drilling programme of £65 mm, the cost of the EFF and ~£10 mm of expected G&A by YE22. Longboat would then receive the total cash tax rebate (~£55 mm irrespective of the fiscal terms changing or not) for the exploration programme to repay the amount drawn on the EFF. This would leave Longboat with >£10 mm in early 2023 when the EFF is repaid.

Capital structure

There are ~56.7 mm common shares in issue. In addition, there is a Founder Investment Plan (FIP) for 5.7 mm nil cost options to the founders that would vest if the share price doubles from admission in a five year period. The FIP is anti-dilutive with a 10% cap of the issued share capital.

There are also (1) 1.34 mm options associated with the Long Term Incentive Plan (0.87 mm already issued) and (2) 0.6 mm shares covered by a co-investment plan.

Risk analysis

In our view, there are three specific areas of risks to the story:

1. Monetization. Longboat would need to find an industry partner to monetize a discovery.
2. Geological risks in Norway.

Appendix 1: Board of Directors and Management

Graham Duncan Stewart: Non-Executive Chairman
Graham is a founder of Longboat Energy and the Chairman of the Nomination Committee of the Company. Graham founded Faroe Petroleum in 1998, where he was Non-Executive Chairman until December 2002 when he became Chief Executive Officer until January 2019 and before that he was with Dana Petroleum plc, the Petroleum Science and Technology Institute and Schlumberger. Graham is the Chairman of the Greenland gold mining company AEX Gold inc.

Helge Ansgar Hammer: Executive Director and Chief Executive Officer
Helge is a founder of Longboat Energy. Helge served as Chief Operating Officer of Faroe Petroleum from 2006 until 2019. Prior to joining Faroe Petroleum, he was Asset Manager and Deputy Managing Director at Paladin Resources. In addition, he worked for Shell for 13 years as a Reservoir Engineer, Team Leader and Business Manager in Norway, Oman, Australia and the Netherlands.

Jonathan Robert Cooper: Executive Director and Chief Financial Officer
Jonathan is a founder of Longboat Energy. Jonathan is a chartered accountant by training having qualified with KPMG before joining Dresdner Kleinwort Benson (later Wasserstein) in their Oil and Gas Corporate Finance and Advisory Team. In 2006 he was appointed as an Executive Director of Gulf Keystone Petroleum, followed by Sterling Energy plc in 2008, where he was Finance Director. He subsequently joined Lamprell plc as Chief Financial Officer in 2011. Jonathan served as Chief Financial Officer of Faroe Petroleum Plc from 2013 until 2019.

Nick Ingrassia: Executive Director and Business Development Director
Nick started his career in banking with roles at Morgan Stanley (energy investment banking) and RBS (structured energy lending & debt advisory) before joining the industry working in business development roles with **Valiant** Petroleum plc (sold to Ithaca Energy inc in 2013), Salamander Energy plc (sold to Ophir Energy plc in 2015) and Faroe Petroleum plc (sold to DNO ASA in 2019). Most recently, he acted as UK Country Manager for DNO ASA.

Hilde Salthe Managing Director Norway
Hilde is a petroleum geologist by background and has over 20 years' industry experience with Shell, Statoil (Equinor), Talisman and Paladin. She was a key member of the Faroe technical team from 2008 until 2019 when the business was acquired by DNO ASA. Most recently, Hilde was the Subsurface Manager of DNO's North Sea Business Unit. She has a Masters Degree from Norwegian University of Science and Technology, Trondheim.

Julian Riddick: Company Secretary and Commercial Director
Julian is company secretary and commercial director and is one of the founders of Longboat Energy. He started his career as an exploration geologist with Consolidated Goldfields in Australia. Prior to Longboat, he was the Company Secretary and Commercial

Director at Faroe Petroleum which he joined in 2002 prior to its admission to AIM and before that he was with Dana Petroleum where he held various financial and corporate positions.

Brent Cheshire: Non-Executive Director
Brent commenced his career with Shell as a geologist in its exploration and production division, eventually spending 14 years with the group. In 1991, he joined Amerada Hess, holding a number of senior positions, latterly as Senior Vice President for E&P Worldwide Technology. In 2004, he became DONG Energy's first UK employee and ultimately managing director of DONG Wind Power, the leading offshore wind developer in the UK, and Chairman of its entire UK operations. Brent was a Director of Faroe Petroleum from 2017 until 2019. He is Chairman of the Mersey Tidal Commission and a Professor in Practice at Durham University. He was made a CBE in the Queen's Birthday Honours in 2018 for services to the Renewable Energy Sector.

Jorunn Johanne Saetre: Non-Executive Director
Jorunn worked in senior positions with Halliburton, in Norway, Europe and the US, over a 30 year period. Her roles included serving as director of Halliburton's European Research Centre, Head of Halliburton's overall Scandinavian operations and responsibility for Global Product Enhancement activities. In 2008, she was awarded the title of "Oil Woman of the Year" by Stavanger Society of Petroleum Engineers. She is currently project manager with the energy cluster Norwegian Energy Solutions and was an Independent Non-Executive Director of Faroe Petroleum from 2014 until 2019.

Katherine Roe: Non-Executive Director
Katherine's career began in investment banking in the City of London, starting within Morgan Stanley's investment banking division and then as a Director of Investment Banking at Panmure Gordon. For her last four years at Panmure Gordon, she headed up the natural resources team and has extensive experience in oil and gas transactions, advising companies on a range of strategic options and equity capital fund raisings and has led many capital markets and M&A transactions. Katherine is the Chief Executive Officer of Wentworth Resources Plc. Katherine was an independent Non-Executive Director of Faroe Petroleum plc from 2018 until 2019 and she also recently became a Non-Executive Director of ITM Power PLC, a leading manufacturer of integrated hydrogen energy solutions.

Appendix 2: Main shareholders

Figure 19. Top shareholders

Shareholders	%	Position (000)	Mkt Val (US$mm)
Blackrock Investment Management	15%	8,384	8.2
Fidelity International	10%	5,545	5.4
AXA Framlington Investment Managers	9%	5,200	5.1
SVM Asset Management	7%	4,167	4.1
Janus Henderson	5%	3,000	2.9
Smith & Williamson Investment Management	5%	2,682	2.6
Chelverton Asset Management Limited	5%	2,667	2.6
Canaccord Genuity Wealth Management	4%	2,333	2.3
Helge Hammer	1%	807	0.8
Graham Stewart	1%	350	0.3
Jonathan Cooper	1%	325	0.3
Nicholas Ingrassia	0%	160	0.2

Source: Company

The Directors of the company hold a total of ~1.6 mm shares, which represents ~3% of the share capital.

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