Why have the Barryroe partners terminated the agreement with SpotOn?

The farm-out agreement stipulated that SpotOn would source the capital to appraise and develop the Barryroe oil & Gas field. This involved a contribution by GIEK, the Norwegian export credit agency and also the sourcing of a corporate bond. GIEK will not be participating (RNS March 1st) and the bond issue is not complete. These were substantial changes to the funding proposition which were unacceptable to Providence. Consequently, a decision was taken that SpotOn would not be able to deliver a funding package as required and any benefits from a farm-out would be much diminished.

What are the implications for Providence?

As operator of the licence Providence will immediately become more involved in project workflows and the provision of finance to advance the project.

Has the value of the project to Providence changed?

Yes, all things being equal the net present value of the project (PVR model) to Providence is now greater in NPV terms (e.g. @ $60/bl, NPV to Providence's share was $327m and is now $560m). This is because the 50% farm-out to SpotOn is not taking place. Providence will now have an 80% share in the field rather than a 40% share as envisaged under the SpotOn farm-out agreement.

What is different between this and the termination of the previous Farm-out?

Both Apex and SpotOn ultimately failed to meet expectations as set out in the respective Farm-out agreements. Nonetheless there is one fundamental difference in that the work undertaken to put in place a bond and to source service company cost deferrals as a source of capital remain in place. In effect the Barryroe partners now have a funding model to proceed with.

Have the service companies confirmed their ongoing participation?

Early stage MOU agreements have been confirmed with the service groups involved that are similar to the agreements with SpotOn.

Does the termination imply anything about the quality of Barryroe?

No. Development efforts for Barryroe have taken place during nearly a decade of difficult oil markets, industry deleveraging and shifting investment perceptions for oil and gas. Efforts to secure capital have been from unconventional sources. It is this factor which is largely accountable for the difficulty in completing a funding package.

What <u>are</u> the qualities of Barryroe?

Barryroe is one the largest undeveloped oil accumulations offshore Europe. It is in shallow water has a favourable tax regime and is close to markets for both oil and gas. The lower Wealden sands have been penetrated five times and the last well demonstrated that although a waxy crude (which is valuable) it can flow commercial rates with appropriate technology. Moreover, subject to Government approval it can be developed in stages minimising overall commercial risk. Any production will also be very tax efficient on Providence's part given the carry forward of $240m of tax losses.

Apart from the project specific benefits of Barryroe it would provide material exchequer benefits especially if, subject to Government approval, the field is developed beyond the eastern panel (48 million barrels only). It also provides security of oil supply and would under the right Government backdrop offer a significant opportunity to generate CO2 neutral power and carbon capture.

Has any progress has been made?

Yes. The SpotOn farm-out work resulted in a broad funding structure, albeit it was not completed as agreed. At the same time the various verification workflows undertaken have confirmed expectations for the field.

What is the timing of the project now?

Importantly development timelines have been largely unaffected. Project design is based around an early development concept and, subject to funding completion and regulatory approval, drilling of a well and first oil is still being targeted for 2023.

What is the status of the Barryroe licence?

Following a two-year extension SEL 1/11 expires this summer. As provided for in State licencing legislation Providence has applied for a Lease Undertaking. Subject to Government approval, Lease Undertakings are issued where the licence holder believes a discovery is commercial but more time is required for confirmation.

What is the scale of the funding?

The original farm-out agreement with SpotOn included the provision of at least $166m of finance towards the early development programme. SpotOn was also required to provide a non-recourse $5m loan to Providence.

How will the project be financed now?

The Barryroe partners will now become directly involved in securing and putting in place the capital required to progress the project and source development capital, the exact makeup of the funding has yet to be determined but it will consist of a mix of debt and service company cost deferrals.

Has the preparation for the capital market element (Bond) of the funding started?

Yes. Active discussions are underway with Scandinavian brokers with a view to raising the bond.

Have other sources of capital contribution been sought?

Providence remains open to other sources of capital such as pre-sale of final product to oil buyers.

What about the requirement for short term working capital?

To maintain development pace and demonstrate their continuing and material support for the project, Pageant Holdings, a substantial shareholder, has made an offer to underwrite a capital raise for US$2.5m at 3p per share. The offer includes a one for one warrant which would potentially raise a similar amount.

What will happen over the next year?

The next 12 months will require the completion of the funding package agreement. Operationally Providence will subject to Government approval secure the Lease Undertaking for the project and State approved site survey of the K well location on Barryroe is scheduled to complete before the end of the year in preparation of the expected drilling programme in 2022. In parallel various regulatory approvals are required including environmental and drilling programme designs.

What will Providence's role be?

Providence as operator will now become very heavily involved in the process of securing and putting in place the various elements of the financing package. It will also manage and control the operational work streams required.

Is Providence sufficiently resourced operationally to complete this?

Providence formerly operated deep water wells in the Porcupine using quality service Group's managed by in-house expertise. Activity over the next three years will follow the same model. In fact steps have already been taken to increase Providence's operating and financial structuring capabilities.

Is the project viable in the context of the transition to low carbon?

Yes, absolutely. In fact, Barryroe can play an important role in any energy transition for Ireland. Any oil and gas produced ensures security of supply to provide the platform to make low carbon investments. The presence of substantial quantities of gas in Barryroe is a potential replacement for existing domestic production but also creates opportunities to supply net CO2 neutral energy to Irish markets.

How do oil prices affect Barryroe's viability?

Barryroe is operationally cash positive down to $25 per barrel. Above $35 per barrel it generates material positive IRR's. At current oil prices retunes from Barryroe are very attractive. With respect to the longer oil price outlook all accepted major forecasters (OPEC, IEA, EIA) of oil supply/demand propose mid-case models that see oil demand at similar or higher levels between 2040 and 2050. With overall investment in the industry declining as the transition to low carbon energy takes place, Providence believes oil prices will have to be at appropriate levels to meet that demand.

Is the cost deferral model by Service companies normal?

This structure is not a traditional source of finance but it has become more common over the last 10 years as service companies have looked to offset the decline in operating activity by the oil and gas industry. The model provides higher returns for service companies through equity participation by taking on greater upfront project risk.