![Allenby Capital]

Company Note

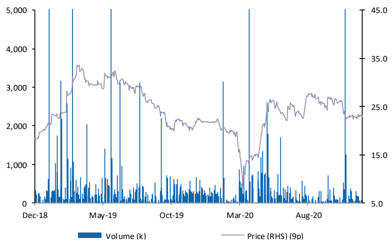
Update

10 December 2020

Corporate

Current price	**22.9p**
Sector	**Oil and Gas**
Code	**SLE.L**
AIM	**AIM**

Share Performance



	1m	3m	12m
SLE.L	+2.2%	-10.5%	+6.0%

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		**103.0**
Shares in issue (m)		**449.9**
52 weeks (p)	High	Low
	28.0	**11.1**
Financial year end		**31 December**

Source: Company Data, Allenby Capital

Key Shareholders

Toscafund Asset Mgt LLP	50.85%
Oisín Fanning	23.89%
Midwestern Oil & Gas	13.18%

Source: Company Data, Argus Vickers

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Equity Research

San Leon Energy plc (SLE.L)

Barryroe hidden gem potentially unlocked

San Leon has a hidden gem. This relates to its 4.5% net profit interest in the undeveloped Barryroe oil and gas field in the Celtic Sea Basin, offshore Ireland. Following the recent announcement by the operator, Providence Resources (PVR.L), of a farm-out and development programme, the gem is now poised to be unlocked. Providence has struck a deal with Norway-based SpotOn Energy to undertake the development and funding of Barryroe in conjunction with a consortium of world class oilfield service companies. Appraisal and development drilling are expected to commence in late 2022 with production, we believe, possibly following in H2 2023 or more likely 2024. Barryroe is one of the largest undeveloped oilfields in Irish/UK waters with audited 2C recoverable resources of 346mm boe. We see Barryroe development as being low risk technically given that oil has already flowed prolifically from four wells. Our assessment is that San Leon's net profit interest in Barryroe could be worth £27m or 6p/share.

- **Background:** San Leon's net profit interest in Barryroe relates to a decision in 2011 to convert a 30% working interest in the field. This enabled San Leon to avoid any spending commitments on the Barryroe project while maintaining upside in the event of development. Barryroe is contained in licence SEL 1/11 and located about 60 km south of the County Cork coast in c 100m of water, which is sufficiently shallow for jack-up rigs rather than more expensive semi-submersibles. Immediately to the northeast of Barryroe is the depleted Petronas-operated Kinsale Head gas field.

- **Geology and historical drilling:** At Barryroe, oil has been found in Cretaceous Middle, Lower and Basal Wealden sandstones. Additional resources have been identified in a deeper Jurassic sandstone formation. Six wells have been drilled on Barryroe since the early 1970s. All have logged hydrocarbons while four generated flow rates of between 1,300 boe/d and 4,000 boe/d. Esso discovered the field in 1973 and drilled three wells. Marathon drilled the 48/24-3 well in 1990 which flowed at 1,619 b/d. This was followed by the Providence 48/24-10 well in early 2012 which flowed at 4,000 boe/d.

- **Development programme:** Development of Barryroe will be undertaken by SpotOn in three stages. The first, called the Early Development Programme (EDP), will involve drilling four horizontal wells into the Basal Wealden formation. One of these will be for water injection. The wells will be tied into a sub-sea production manifold and connected to a leased FPSO. The cost of the EDP will be $166m. The second and third phases will involve more broadly based development starting in the eastern sector of the field.

- **Valuation:** Previously we had assigned no value to the Barryroe net profit interest given the absence of a development programme. With the advent of the Providence/SpotOn farm-out, the situation has changed. Our valuation estimate is £27m or 6p/share. This reflects 2C resources of 346mm boe, an allowance of 5mm boe for capital expenditure amortisation, SLE's 4.5% interest, a valuation quotient of $3/boe, a 75% risking factor and an exchange rate of £1=$1.30. After adding our estimate for the Barryroe net profit interest the overall corporate valuation increases from 82p to 88p/share.

Year End: December					
(£'000)	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Cash flow (pre-financing)	40,114	27,746	16,649	72,947	(1,876)
Net (debt)/cash	40,762	36,697	20,346	93,293	91,417

Allenby Capital acts as Nomad & Broker to San Leon Energy plc (SLE.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

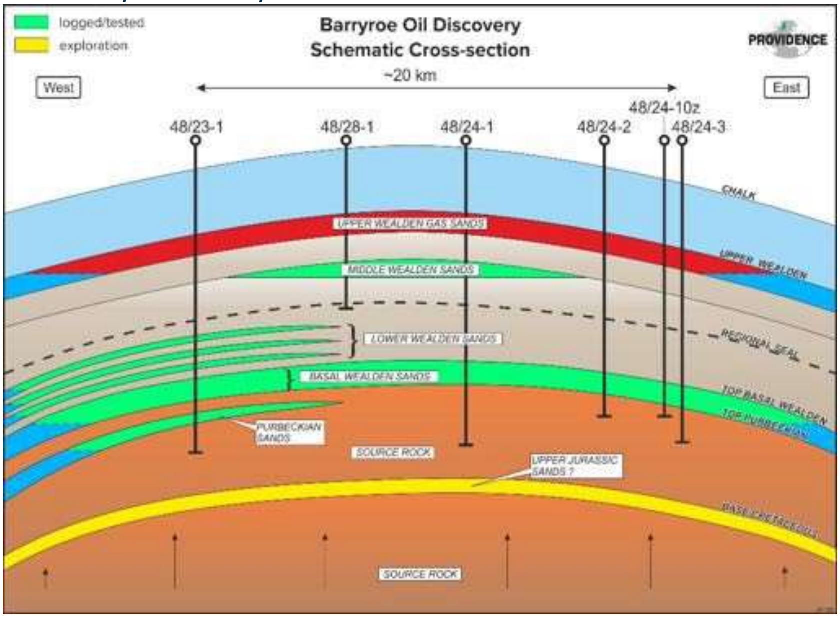
Exhibit 1: Barryroe location

Source: Providence Resources

Resource base

The Barryroe resource base is orientated to crude oil. Field 2C resources of 346mm boe gross are split 311mm barrels for crude and 35mm boe for associated gas. Presently the resource base is derived purely from two formations, the Basal Wealden and the Middle Wealden, with the former and latter contributing 266mm barrels and 45mm barrels respectively. Further resource potential has been identified in the Lower Wealden, the Purbeck sands and a deeper Jurassic sandstone formation. Recovery rates have been given by Providence in technical studies as 35% in the Basal Wealden and 16% in the Middle Wealden. We believe these rates are without secondary recovery. The flow rates, particularly in the Basal Wealden, suggest good permeability. On test, the wells have produced high quality light oil. In the case of Providence 48/24-10, the API was 43°.

Exhibit 2: Barryroe oil discovery schematic



Source: Providence Resources

Barryroe's 2C resources have been independently audited by two well-known reservoir engineering consultancies. RPS Energy undertook the audit for the Middle Wealden formation in 2011 and Netherland Sewell for the Basal Wealden in 2013. Following appraisal work for the EDP, we would expect current contingent resources to transition to the 2P reserves.

Why has Barryroe not been developed previously?

Given the scale of the resource base plus successful drilling, the question might be asked why Barryroe has not been developed before. There would appear to be no easy explanations. Possibly in the 1970s Esso under-estimated the scale of the field and was, therefore, not prepared to undertake a major field development involving heavy expenditure on platforms and pipelines to the shoreline. In recent years, Providence's strategy was always to secure a farm-out to an operator with considerably deeper pockets than itself. Until the emergence of SpotOn, Providence was unsuccessful in its endeavours.

Who is SpotOn?

SpotOn, it is fair to say, is not a well-known entity in petroleum industry circles. It is a Norway-based company apparently staffed by experienced industry professionals specialising in field development and production. The distinguishing feature of the company is that it undertakes development projects using a consortium of world class oilfield service companies. The consortium gets directly involved in the field development planning process and is prepared to accept deferred payment for its services. Ultimately payment is made on a royalty basis once production commences. SpotOn's consortium of oilfield services providers includes Schlumberger, Maersk Drilling, Aker Solutions, Keppel Fels Ltd, Aibel and AGR. Conceivably, the SpotOn approach can lower upfront development costs and help establish an alignment of interests with the owners of a project.

Who will finance the project?

Post the conclusion of the farm-out, SpotOn will own 50% of Barryroe while Providence Resources and Lansdowne Oil & Gas will own 40% and 10% respectively. SpotOn will initially finance 100% of the EDP and full field development. However, Providence and Lansdowne will not be free carried. Their share of costs will be financed by SpotOn through a non-recourse loan secured against future production. The coupon is 8%. SpotOn will be entitled to 80% of cash flow from Barryroe until the debt is repaid.

As far as we are aware, SpotOn is not a listed entity. It is not clear how SpotOn will fund the $166m capital cost of the EDP. Significantly, one of the key terms of the farm-out agreement is that SpotOn can confirm that financing of $166m is in place. SpotOn is also required to provide a $5m non-recourse loan to Providence to carry out the necessary Barryroe permitting work and progress the EDP work programme.

We view the financing arrangements for Barryroe as a key risk surrounding project development. We can only assume that Providence has carried out its due diligence.

What do project economics look like?

According to Providence's preliminary economic assessment, Barryroe project economics compare favourably with those in the North Sea. Based on Brent at $55/barrel and gas at $3/mcf, the IRR for the EDP is >40% while the NPV10 is $240m after tax. Importantly, the investment payback is only about a year. Apparently, economics remain robust assuming Brent at $40/barrel.

Regulatory issues

Obviously perhaps, another key condition of the Barryroe farm-out agreement is that a petroleum lease is granted by the Irish authorities although we have no reason to believe that this and other permitting will not be granted given the substantial economic benefits that could flow from Barryroe development. The principal benefit is a reduction in net petroleum imports. Presently Ireland imports 100% of its petroleum product requirements. Exports of crude would provide a partial offset to imports of refined product. Gas imports could also possibly be significantly reduced in due course.

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