

12 August 2020

LMS Capital PLC

INVESTMENT IN A PORTFOLIO OF OIL AND GAS PRODUCING ASSETS IN ROMANIA

- **Leadership of an investment group to acquire an interest in Dacian Petroleum ("Dacian") in Romania**
- **Dacian will, conditional on obtaining necessary Romanian Government approvals, acquire a business operating onshore oil and gas fields currently producing approximately 1,400 barrels of oil equivalent per day ("boepd") with significant production upside and unrecovered reserves**
- **Approvals expected late Q3 or Q4 with a backstop date of 8 January 2021**
- **LMS investment of US\$9.05 million in loan and equity capital to acquire a 32% holding in Dacian**
- **Co-investors include Dacian management, LMS Directors and others**

LMS Capital PLC ("LMS") announces that it is leading an investor group (the "Investor Group") which has conditionally agreed to finance the acquisition by Dacian Petroleum ("Dacian") from the Romanian state oil company, OMV Petrom, of a business (the "Business") operating 40 oil and gas fields with 190 active and 900 inactive wells located in Romania.

The acquisition by Dacian is conditional upon Dacian obtaining certain Romanian Government regulatory approvals ("Approvals"). There is a backstop date of 8 January 2021, by which time, if the Approvals have not been obtained, the acquisition agreement will terminate.

The fields included in the Business are currently producing approximately 1,400 boepd (60% gas and 40% oil), and have substantial unrecovered reserves.

The Investor Group includes LMS, Directors of LMS (Chairman, Robbie Rayne, Managing Director, Nick Friedlos and Non-executive Director, James Wilson) ("LMS Directors"), other private investors and Dacian's management.

LMS Capital will invest a total of US\$9.05 million in loan and equity capital to acquire a 32% holding in Dacian, with the remaining share capital being held by Dacian's founder group (50%) and other co-investors including the LMS Directors (18%).

Following its return to self-managed status in 2019, LMS' investment focus is on property, energy, and late-stage private equity. The Company has already announced backing for two teams which will seek opportunities in the property sector.

This transaction represents the first investment in the energy sector. LMS's focus on the energy sector includes both existing oil and gas assets, and also renewables and clean technologies.

Rationale for the acquisition

The acquisition offers:

- the opportunity to acquire a business that is operationally cash flow positive from day one;
- an attractive entry price, based on reserves in place;
- a local team with prior knowledge of the assets;
- the prospect of significant increased production gains from applying straightforward workovers and maintenance to assets which historically have not been a strategic focus for their current owner;
- a robust business plan that is expected to produce target returns, and can withstand energy prices below current levels.

Returns

The transaction is expected to be operationally cash flow positive from completion and is expected to produce consistent returns to investors through both regular interest and dividend payments, and the repayment of acquisition-related debt over a four-year period. The investment is expected to meet LMS' long term return criteria of 12% to 15% per annum.

The investment will be structured as unsecured loans which carry a coupon of 14% per annum, and a subscription for share capital for a nominal sum. LMS will hold \$9.05 million of 14% loans and 32% of the ordinary shares.

Entry price

LMS believes that, in relation to likely reserves, the acquisition price represents an attractive entry point into an existing business operating mature oil and gas producing assets.

Team with relevant experience and local knowledge of the assets

The Dacian team is highly experienced, with oil industry experience and detailed prior knowledge of the assets included in the Business which, given their relatively small size, were not historically a high priority for investment by the current owner. The four founders have over 100 years of experience in the oil and gas industry with their roles ranging from direct operation of oil and gas fields in locations specifically including Romania, senior leadership of multi-national oilfield service companies and regional management of oilfield service operations in Eastern Europe. The team in Romania will be led by one of the founder shareholders who has held senior engineering and management roles in the oil and gas industry and has also held senior roles in the services sector working internationally including five years in Romania. The senior management team includes, in addition to the founders, individuals who have worked in the oil industry in Romania, in some cases for many years.

Opportunity to add value

The Business being acquired is small and has not received investment over recent years. This situation creates the opportunity to significantly increase production levels, at a low cost per unit of increase achieved, through a series of workover and enhancement projects.

Robust operating model

Consideration has been given to the volatility recently seen in oil prices and investor returns have been evaluated in a number of scenarios.

The workover and enhancement projects are individually relatively low cost, can be completed typically in less than one month, can be funded from operating cash flows and should payback their cost quickly. Individual projects can be timed and scoped in response to market conditions including oil and gas prices.

Background information

OMV Petrom SA is a Romanian integrated oil company controlled by Austria's OMV. It is one of the largest corporations in Romania and is the largest oil and gas producer in South Eastern Europe.

In 2017 OMV Petrom announced the sale of the Business as part of its operating strategy to divest of smaller, onshore Romanian fields to allow it to focus on larger international opportunities including offshore drilling and production in the Black Sea. Dacian's management commenced initial exploratory meetings in early 2018.

Information on Dacian Petroleum

Dacian Petroleum was formed in October 2018, and was formally qualified as an operator by the Romanian oil and gas authority (NAMR) in March 2019.

Dacian Petroleum's mission is to build a long-life oil and gas production company for the purpose of rehabilitating old oil and gas producing properties which would benefit from the application of established methods to recover remaining oil and gas reserves. The main features of the Business being acquired are:

- 40 oil and gas fields, 190 active wells, the land rights, equipment and assets used in production, and a workforce of some 200 individuals currently employed in the Business
- Current production of approximately 1,400 boepd (60% gas; 40% oil)
- Local independent petroleum engineering assessment has concluded that there are substantial remaining hydrocarbons in place for these fields, with likely overall recovery factor of only 21% to date for oil and 53% for gas
- OMV Petrom's internal 3P reserves estimate and estimates done by local third parties indicate 3P reserves of c.10.5 million to 13 million barrels of oil equivalent (boe)

Dacian's team has developed an operational plan, comprising a series of relatively small workover and enhancement projects across the fields included in the Business which have the potential to achieve significant increases in production over the first three years of ownership. These projects rely on established methods and technology used in the industry.

Financing the acquisition

The total consideration payable by Dacian for the acquisition of the Business is approximately \$17.8 million, with approximately \$10 million payable at closing of the acquisition and approximately \$8 million of deferred consideration (the "Deferred Consideration"). In addition to the cash consideration due at closing, Dacian is raising an additional \$4 million to fund transaction costs and working capital for the Business. Dacian's obligations with respect to the Deferred Consideration are supported by a personal guarantee (the "Personal Guarantee") from one of Dacian's founders.

The capital raising by Dacian of US\$14 million comprises:

- the issue to the Investor Group of US\$14 million Unsecured Loans ("Loans") maturing after 7 years and bearing interest at 14%; and
- the issue to the Investor Group of 50% of the ordinary shares in the company for a nominal consideration.

Dacian is also required by the vendor to cash collateralise a performance guarantee ("Performance Guarantee") in relation to certain obligations in respect of the Business. This guarantee is for \$5 million and is required to be set aside out of operating cash flows over the

first three years.

So long as Dacian is current with its obligations to the vendor in connection with the Deferred Consideration and the Performance Guarantee, and without calling upon the Personal Guarantee and has adequate reserves for its liabilities, interest on the Loans can be paid at the end of each year.

The principal amount of Loans cannot be repaid until all obligations under the Deferred Consideration and the Performance Guarantee have been satisfied, together with the first \$2.8 million of outstanding calls, if any, under the Personal Guarantee. The balance of any calls under the Personal Guarantee over and above \$2.8 million will only be repaid after the Loans have been satisfied.

No dividends can be paid on the Common Shares until obligations to the vendor have been fully satisfied and the Loans and interest thereon has been repaid in full and any outstanding amounts under the Personal Guarantee.

LMS Capital is investing \$9.05 million in Loans and subscribing for equity, resulting in a holding of 32% in the share capital of Dacian. Other members of the Investor Group will hold 18% and the founder group will hold 50%.

Regulatory approvals and completion

LMS and the Investor Group will deposit funds in escrow at the point when there is clarity around the expected date of the Approvals. Once the Approvals have been obtained, funds will be released from escrow and completion of the transaction will occur. If Approvals are not obtained funds will be returned to investors. There is a back-stop date of 8 January 2021 at which point, if completion has not occurred the conditional acquisition agreement will terminate and funds be returned to investors.

Investor group

LMS' investment represents approximately 15% on the company's NAV and is the maximum it can invest in any one transaction under its current investment policy.

LMS Directors, Robert Rayne, James Wilson and Nick Friedlos are investing \$1.075 million, \$1.075 million and \$0.1 million respectively which in total is equal to less than 25% of the amount being invested by LMS.

Other private investors are investing the balance of \$2.7 million required by Dacian to acquire the Business and to operate it.

All investors - LMS, the LMS Directors and the other private investors are investing on identical terms, including the same proportions as between Senior Notes and Ordinary Shares in Dacian.

Commenting on the investment, Robbie Rayne, Chairman of LMS Capital said:

"I am delighted to be able to announce this significant transaction in LMS's new era of self management. It shows our ability to access deal flow arising from long term relationships in sectors where we have established and long experience, and our ability to execute transactions as well as introducing co-investors. The sunset exploitation of historical oil and gas production assets is in our view, an important part of the world's energy transition. The deal is expected to generate income and cash flows for LMS in the early years, and has been acquired at an attractive price leaving room for significant upside. We look forward to working with the Dacian team to unlock the value of the Business."

ENQUIRIES:

LMS Capital PLC - 0207 935 3555

Robbie Rayne, Chairman

Nick Friedlos, Managing Director

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