

CHARIOT OIL & GAS LTD (LON:CHAR)

Large-cap Portfolio with Small-cap Leveraged Upside

Chariot Oil & Gas (LON:CHAR) is a UK-based oil and gas exploration company listed on the AIM market of the London Stock Exchange. The company has assembled a very prospective portfolio of assets located on both sides of the Atlantic in West Africa and South America, and has carried out the necessary adjustments to weather the commodity downturn, reducing staff from 22 to 12 and cutting G&A to less than US\$5M. With a US\$22M cash position significantly exceeding commitments, and no debt, Chariot Oil&Gas (LON:CHAR) is now in a position to drill three company-making wells in Morocco and Namibia in the near-term. Chariot Oil & Gas (LON:CHAR) intends to remain an exploration company, returning value to shareholders from the proceeds of the divestment of future discoveries at the point of maximum monetisation potential. We believe this is an opportune time for potential investors to revisit the equity story.

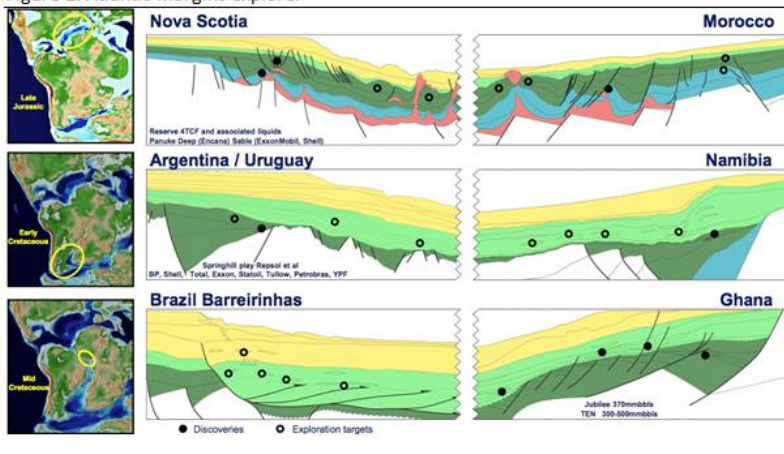
BACKGROUND

Chariot Oil & Gas (LON:CHAR) went through an AIM IPO in 2008 with a purely Namibia focused portfolio. Since 2011 Chariot Oil & Gas has developed a balanced portfolio, demonstrating its ability to identify and access high potential acreage as an early entrant, secure key industry partners and funding in order to mature its assets and test its high potential prospects through the drill bit.

In 2011 and 2012 Chariot raised equity finance along with successful farm outs to fund its exploration drilling campaign in Namibia, which resulted in two unsuccessful wells Tapir South-1 and Kabeljou-1. More recently Chariot raised US\$15M to fund seismic acquisition in Brazil (2014). Chariot also funded itself by successfully acquiring acreage as an early entrant and farming-out to larger well-funded partners such as Eni and Woodside in the Rabat Deep licence in Morocco.

The current portfolio spreads across 3 countries (Morocco, Namibia and Brazil) and 4 plays in 5 licence areas, on both sides of the Atlantic with opportunities mirrored by proven hydrocarbon provinces on the other side of the Atlantic (Figure 1).

Figure 1: Atlantic margins explorer



Source: Chariot Oil&Gas

Chariot seeks to create transformational value through the discovery of material reserves of hydrocarbons by exploring in new and emerging hydrocarbon provinces. In order to achieve this objective Chariot takes large equity positions in the early phases of exploration and manages risk through portfolio diversity, application of technology and partnering, which provides third-party validation of assets and additional funds for furthering the portfolio. We review these opportunities in turn in the following.

OIL & GAS PRODUCERS

26/10/2017

SHARE PRICE	52 WEEK LOW
▲ £15.5p	▲ £7.20p
MARKET CAP	52 WEEK HIGH
▲ £41.6m	▲ £18.50p
SHARES IN ISSUE	MARKET
▲ 268.35m	▲ AIM

MAJOR SHAREHOLDERS

- 1) Westward Investments: 10.6%
- 2) TD Direct Investing: 8.4%
- 3) Hargreaves Lansdown: 7.9%

Shares in Issue	268.35m
Avg Trading Volume	622k
Primary Index	AIM
EPIC	LON:CHAR
Next Key Announcement	-
Sector	Oil & Gas Producers

SHARE PRICE CHART



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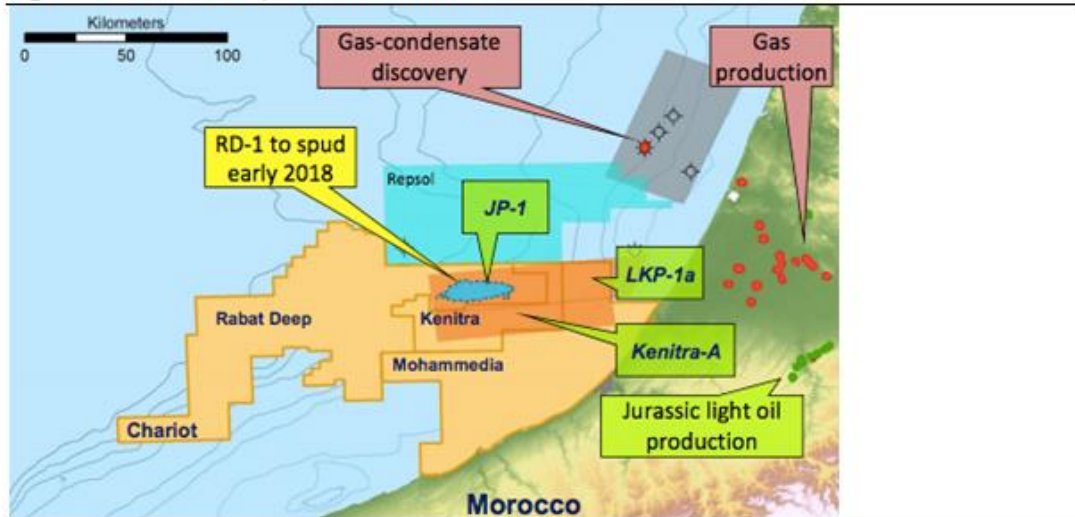
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MOROCCO

The country has a highly prospective petroleum geology, with proven source rocks supported by nearby onshore legacy light oil fields and proven reservoirs identified onshore as outcropping Lower Cretaceous fluvial clastic; the very same plays vindicated by major discoveries in the conjugate basin in Nova Scotia, although to date no major discovery has been made in offshore Morocco. Petroleum licences in the country benefit from world-class fiscal and commercial terms, and partners have identified large-scale targets (Figure 2).

Figure 2: Location map of assets in Morocco



Source: Chariot Oil&Gas

Chariot has modelled mature kitchens offshore, based on identified source rocks and has mapped down-dip delta top and delta front seismic facies at reservoir levels corresponding to the Lower Cretaceous fluvial clastic formations identified onshore, over the Mohammedia licence. Three drilling targets have been identified.

RD-1 is a 4-way dip closed Jurassic carbonate prospect located in water depths of 1210 meters and with estimated net mean prospective resources of 77 MMbbl (768MMbbl gross prospect in which Chariot holds 10% interest;). Success at RD-1 would de-risk an additional six Jurassic leads with estimated net mean prospective resources of 1250 MMbbl at current equity levels. RD-1 is fully funded by Eni and is scheduled to spud in late Q1 2018.

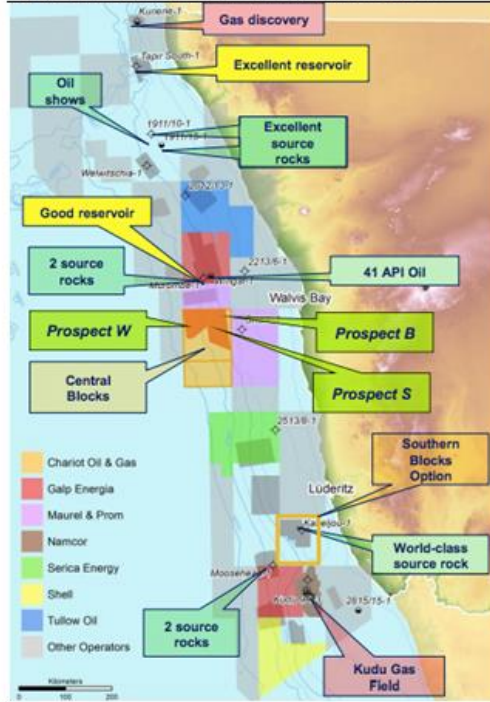
Kenitra-A is an attribute supported 3-way dip closed faulted lead in Cretaceous deepwater clastic reservoir, with net mean prospective resources of 350MMbbl (Chariot 75% interest). Subject to funding the well is scheduled to spud in early 2019.

LKP-1a is a faulted 3-way dip closed structure with Class III AVO dip conformance, analogous to the Cohasset field on the conjugate margin in Nova Scotia. At a water depth of 350m, LKP-1a has prospective resources of 263MMbbl (Chariot 75% interest) and is part of a complex of 3D defined prospects with aggregate mean gross prospective resources in excess of 1.0 billion barrels. The LKP complex of prospects extends southwards into part of Mohammedia which is the subject of 3D seismic data acquired in early 2017. Subject to funding, the well is scheduled to spud in the second half of 2019.

NAMIBIA

Namibia remains a frontier region with neither oil nor gas commercial discovery made to date. Previous drilling of six unsuccessful deepwater wells proved all elements of a working petroleum system partially analogous with the proven Argentinian margin. Excellent quality Upper Cretaceous turbidite reservoir rocks were encountered in Namibian deepwater wells, with an average porosity of 19% reported in Baobab sands of the Murombe well. Wells adjacent to the Central Blocks encountered excellent quality mature Apto-Barremian source rocks, modelled to be oil mature in the region. The Wingat well recovered 41° API oil from thin sands in the Aptian. Namibia is similar to Uruguay, another frontier petroleum province with numerous giant-scale exploration targets. Petroleum licences in Namibia benefit from a good fiscal regime (Figure 3).

Figure 3: Location map of assets in Namibia



Source: Chariot Oil&Gas

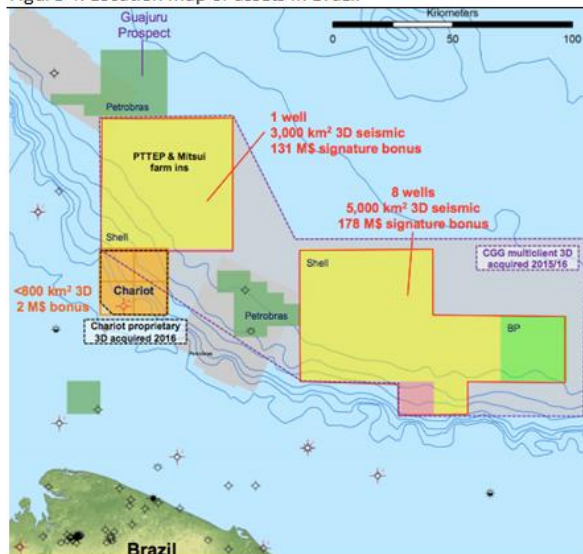
Five 4-way dip-closed structures have been identified in the Upper Cretaceous turbidite clastic play fairway, and the focus prospects are:

- Prospect S is a 4-way dip closed upper slope turbidite fan with 3 potential targets with dimming on structure. The combined net prospective resources are estimated at 298 MMbbl (Chariot 65% interest).
- Prospect W is a similar structure as Prospect S albeit with dimming on the crest of the upper target. The combined net prospective resources are estimated at 185 MMbbl (Chariot 65% interest). Three additional 4-way dip closed structures have also been identified in the play.
- Prospect B is also an Upper Cretaceous deepwater turbidite target in an upper slope fan stratigraphic trap. The combined net prospective resources are estimated at 305 MMbbl (Chariot 65% interest).

BRAZIL

Chariot acquired 4 contiguous blocks, in the Barreirinhas Basin, which straddle shallow and deep water, in the process paying a US\$2M signature bonus, a fraction of those paid by larger companies for pure deepwater blocks. The Basin is a frontier petroleum region and licences benefit from favourable fiscal terms (Figure 4).

Figure 4: Location map of assets in Brazil



Source: Chariot Oil&Gas

In the Barreirinhas Basin, excellent reservoirs and source rocks were proven by nearby drilling as well as by major discoveries in the conjugate Tano basin of Ghana and Cote d'Ivoire.

Only three deepwater wells have been drilled in the basin, demonstrating the presence of excellent Tertiary and Cretaceous turbidite reservoirs. Cenomanian-Turonian source rocks have been found in shallow-water wells drilled in-board of Chariot's acreage and there is evidence for sufficient burial in the basin for hydrocarbon generation; a fact supported by shows and potential seismic DHI's.

Ten commitment deepwater wells will be drilled by the industry over the next 3 years, with one well committed in the block to the north of Chariot's acreage. Hence, third-party drilling in the deepwater blocks also has the capacity to de-risk the play.

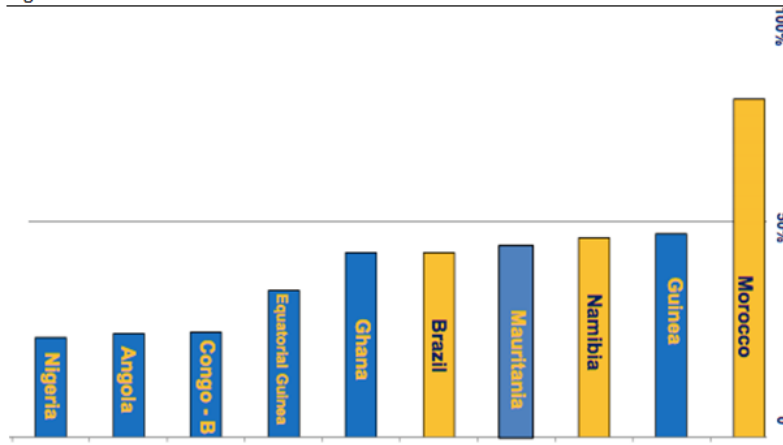
Chariot recently acquired and processed 775km² of 3D seismic covering all 4 blocks and has no remaining commitments. Next steps are to finish evaluating the 3D seismic and define a drill ready prospect. Any exploration drilling in these licences will be subject to partnering and will likely follow a play opening well to be drilled in the neighbouring deepwater block.

Numerous leads were already identified within Chariot's acreage on legacy 2D seismic data and a 200 km² four-way dip-closed structure was identified on Chariot's acreage from high quality, proprietary 3D seismic data. Deepwater turbidite seismic facies and fan entry points indicate the presence of reservoir sand on the preliminary processed 3D data. Hence, management believes there is potential for material hydrocarbon accumulations comparable to those found in Ghana (300-500 MMbbl).

FAVOURABLE FISCAL REGIMES

As an early entrant in frontier and emerging petroleum provinces, Chariot benefits from favourable fiscal terms (Figure 5).

Figure 5: Indicative Contractor share



Source: Chariot Oil&Gas

CATALYSTS

Chariot identifies the following value triggers in the near-term (Figure 6).

Figure 6: Expected timeline of events

Country	Licence	2H 2017	1H 2018	2H 2018	1H 2019	2H 2019
MOROCCO	Rabat Deep		Salpem 12000 RD-1 JP-1 768mmbbls***	* Subject to funding ** Subject to funding and dependent on outcome of adjacent drilling *** NGA estimate of Gross Mean Prospective Resource **** Internal Chariot estimate of Gross Mean Prospective Resource		
NAMIBIA	Central Blocks 2312 & 2412A	Drilling Prep Well Partnering		Drilling* Prospect S 459mmbbls***	Drilling** Prospect W 284mmbbls***	
MOROCCO	Kenitra	Drilling Prep	Well Partnering		Drilling* Kenitra-1 464mmbbls****	
MOROCCO	Mohammedia	Drilling Prep	Well Partnering			Drilling* LKP-1a 350mmbbls***
BRAZIL	BAR-M-292/3 BAR-M-313/4			Drilling Prep Well Partnering		Drilling** Lead potential 300 - 500mmbbls****
New Ventures	100%	Evaluation of New Venture Opportunities				

Source: Chariot Oil&Gas

ECONOMICS

We understand from the company that, in the success case, the cash breakeven oil price for most of their targets would be US\$20-25 /bbl which we reckon would place them in a favourable position on the global oil projects cash costs curve.

As such, Chariot would be able to easily monetise any potential discovery in the portfolio. However, for the purpose of this note we have not run our own economic analysis.

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