

## Tower Resources plc

### Stock Data

Share Price: 0.3p  
Market Cap.: £3.7m  
Shares in issue: 1,243.3m

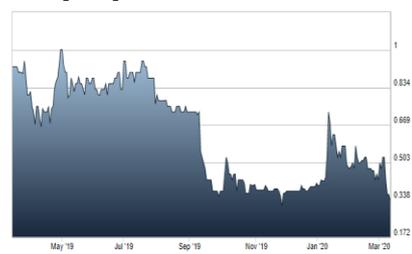
### Company Profile

Sector: Oil & Gas  
Ticker: TRPL  
Exchanges: AIM

### Activities

Oil and gas exploration company with a core focus on the Thali PSC located offshore Cameroon. The company also holds assets in South Africa, Namibia and the Sahawari Arab Democratic Republic.

### Share price performance



Source: [London Stock Exchange website](#)

**Past performance is not an indication of future performance.**

### Turner Pope contact details

Turner Pope Investments (TPI) Ltd  
8 Frederick's Place  
London  
EC2R 8AB

Tel: 0203 657 0050  
Email: [info@turnerpope.com](mailto:info@turnerpope.com)  
Web: [www.turnerpope.com](http://www.turnerpope.com)

**Attention is drawn to the disclaimers and risk warnings at the end of this document.**

This is a non-independent marketing communication. The analyst who has prepared this report is aware that TPI has a relationship with the company covered in this report. Accordingly, it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

**TPI acts as joint broker to Tower Resources plc.**

**Retail clients (as defined by the rules of the FCA) must not rely on this document.**

Barney Gray  
Research analyst  
Tel: 0203 657 0050  
[barney@turnerpope.com](mailto:barney@turnerpope.com)

**Tower has received an updated reserves report from Oilfield International Limited (OIL) covering Tower's Thali production sharing contract (PSC) in Cameroon. The document, termed the '2020 Reserves Report' does not contain new technical information compared to the previous report prepared by OIL in November 2018. However, the 2020 report does include updated oil prices and costs reflecting the changes in the market over the intervening period.**

We note that the gross mean contingent resources of c.18 mmbbbls across the proven Njonji-1 and Njonji-2 fault blocks remain unchanged. This also applies to the gross prospective resources of almost 20 mmbbbls attributed to the Njonji South and Njonji South-West fault blocks and the gross mean prospective resources of 111 mmbbbls attributed to four prospects in the Dissoni South and Idenao areas located in the northern part of the Thali licence. The details of these accumulations, including resource estimates are outlined overleaf.

Tower explains that the NPV10 of the best estimate contingent resources from the 2018 Reserves Report is US\$158m with an EMV of US\$118m. However, this is based on a Brent Forward Curve of US\$71 per barrel used at the time. Using the Brent Forward Curve from 10 March 2020 following much of the recent fall in global oil prices, the NPV10 and EMV10 are reduced to US\$119m and US\$91m respectively. (Note that NPV relates to the valuation of the project based on the median estimate of the resources and the EMV is an approximation of the expected value of the full range of outcomes, including the risk of failure. Both measures are net of the project costs including the current appraisal well.)

Tower has noted that the NPV10 and EMV10 for Njonji have fallen by relatively modest levels of approximately 25% compared to the 2018 Resources Report. One significant reason is that that Forward Brent prices have fallen by less than prompt prices given that the prompt market is comparatively oversupplied. As such, the average forward price of Brent is c. US\$44 per barrel in 2021.

The company has also stated that the projected costs of the Njonji project, which are comparatively low, have also fallen slightly reflecting the company's experience in sourcing equipment for the planned NJOM-3 well more cost effectively than originally projected. Additionally, under the terms of the Thali PSC, the profit allocation mechanism attributes a greater share of oil to the contractor when oil prices are low. This accounts for the modest increase in resources attributable to Tower in 2020 compared to 2018.

In events immediately prior to the slump in global oil prices, Tower executed a binding heads of terms (HoT) in respect of a farm out of a 24.5% working interest in the Thali PSC to OilLR Pty Ltd on 2 March 2020. Under the key terms of this initial agreement, OilLR will contribute US\$7.5m towards the cost of the proposed NJOM-3 well that Tower is planning to drill on Thali in June 2020. Further details are outlined in the body of this report.

On 9 March, the company also announced that it had raised gross proceeds of £0.5m through the issue of 138.7 million new shares at 0.375p per share through its broker Turner Pope Investments. These funds will be used to provide working capital to the company while Tower expedites the farm-down of the Thali PSC over the coming months.

**Tower has made solid progress in recent days despite significant headwinds from the recent collapse in global oil prices. The company has previously stated that the Njonji project economics demonstrate attractive cash flow even at a Brent oil price of US\$40 per barrel. With the farm-out process ongoing and drilling currently scheduled for mid-2020, first production from Njonji is still some time away. As such, we believe that the intervening period will provide ample time for a recovery in oil prices as supply and demand stabilises and aggravating factors, specifically the Covid-19 pandemic, abate.**

# The 2020 Reserves Report summary

As outlined previously, we note that the Oilfield International Limited (OIL) 2020 gross contingent resources estimates for the Njonji field remain unchanged from the 2018 report published on 1 November 2018. The latest report conforms to SPE\_PRMS guidelines and does not include new technical information.

## Contingent resources

### Njonji project – Contingent oil resources (Gross, mmbbls)

Njonji Fault Blocks 1,2 and South Development unclarified	Gross				Chance of development
	Low	Best	High	Mean	
Phase 1	5.0	11.8	19.6		80%
Phase 2	0.0	3.4	14.8		70%
<b>Total</b>	<b>5.0</b>	<b>15.2</b>	<b>34.4</b>	<b>17.9</b>	

[Source: 2020 Reserves Report \(OIL\)](#)

As outlined on the first page of this report, we note that the best estimate net attributable oil resources estimate has increased slightly from 8.9 mmbbls to 9.2 mmbbls to reflect the slightly increased share of oil attributable to the contractor when oil prices are lower.

### Njonji project – Contingent oil resources (net attributable to Tower, mmbbls)

Njonji Fault Blocks 1,2 and South Development unclarified	Net			Chance of development
	Low	Best	High	
Phase 1	3.0	7.3	10.4	80%
Phase 2	0.0	1.9	7.9	70%
<b>Total</b>	<b>3.0</b>	<b>9.2</b>	<b>18.3</b>	

[Source: 2020 Reserves Report \(OIL\)](#)

## Prospective resources on the Thali PSC

We note that gross and net attributable prospective resources on the Thali PSC are unchanged in the 2020 Reserves Report compared to the 2018 edition.

### Prospective resources – Gross, mmbbls

Gross Prospects	Estimates		mmbbls		Chance of Discovery	Chance of Commercial success	Chance of Development
	Low	Best	High	Mean			
Njonji South	4.7	14.9	35.4	18.2	42%	70%	30%
Njonji South West	0.2	1.1	3.6	1.6	32%	50%	16%
<b>Total</b>	<b>4.9</b>	<b>16.0</b>	<b>39.0</b>	<b>19.8</b>			

[Source: 2020 Reserves Report \(OIL\)](#)

**Prospective resources – Net attributable to Tower, mmbbls**

Net to Tower Prospects	Estimates				Chance of Discovery	Chance of Commercial success	Chance of Development
	Low	Best	High	Mean			
Njonji South	2.6	7.4	16.6	0.0	42%	70%	30%
Njonji South West	0.2	0.8	2.1	0.0	32%	50%	16%
<b>Total</b>	<b>2.8</b>	<b>8.2</b>	<b>18.7</b>	<b>0.0</b>			

[Source: 2020 Reserves Report \(OIL\)](#)

## After tax NPVs and EMVs

As outlined earlier, the recent decline in global oil prices has impacted NPVs and EMVs for the Njonji project and the data from the 2020 Reserves Report by OIL is outlined in the tables below.

**After tax NPV and EMV10 attributable to Tower (US\$m)**

Njonji Fault Blocks 1,2 and South Development unclarified	Gross			Chance of development	EMV10 Swanson's rule
	Low	Best	High		
Phase 1	-15.0	103.0	158.0	80%	64.0
Phase 2	0.0	16.0	105.0	70%	27.0
<b>Total</b>	<b>-15.0</b>	<b>119.0</b>	<b>263.0</b>		<b>91.0</b>

[Source: 2020 Reserves Report \(OIL\)](#)

The 2020 report also outlines similar data for the prospect inventory on Thali, outlined in the table below.

**After tax NPV and EMV10 attributable to Tower (US\$m)**

Prospects	Estimates			Chance of Development	EMV10 Swanson's rule
	Low	Best	High		
Njonji South	19	92	207	30%	31.0
Njonji South West	-5	3	22	16%	0.0
Dissoni South Fault Block A	-5	162	390	19%	33
Dissoni South Fault Block B	4	31	94	13%	4
Ideanao East FOI-2	16	112	319	14%	19
Ideanao East FOI-1	24	125	331	14%	22
<b>Total</b>	<b>53</b>	<b>525</b>	<b>1,363</b>		<b>110</b>

[Source: 2020 Reserves Report \(OIL\)](#)

## Cameroon farm-out update

On 2 March 2020, Tower announced a binding heads of terms (HoT) in respect of a farm out of a 24.5% working interest in the company's Thali Production Sharing Contract (PSC) in Cameroon to OilLR Pty Ltd. Under the key terms of this initial agreement, OilLR will contribute US\$7.5m towards the cost of the proposed NJOM-3 well that Tower is planning to drill on Thali in June 2020.

OilLR is a private company incorporated in Brisbane, Australia. Its principal shareholders are Managing Director, Art Malone and Chairman, Greg Lee, both of whom possess significant experience in the oil and gas industry. With 15 years' experience as a senior resource executive, Mr Malone recently served as COO to ASX listed Doriemus PLC. Mr Lee is a petroleum engineer with over 30 years' experience and recently served as technical director at Doriemus. Greg was also a founder of Grove Energy and also Regal Petroleum Plc.

Under the terms of the HoT, the farm out covers US\$7.5m towards the cost of the NJOM-3 well that Tower is planning to drill on the Thali PSC. The well is currently expected to cost US\$15-16m of which approximately US\$3.0m has already been spent by Tower. Costs in excess of US\$15m will be funded on a pro-rata basis with regard to partner working interests.

OilLR will receive a 24.5% working interest in the PSC subject to an overriding royalty (ORR) of 10% for Tower on the contractor share of production under the PSC terms. Each party will recover back costs funded and recoverable under the terms of the PSC. Tower will effectively contribute its non-recoverable costs in consideration of the 10% ORR on the contractor share of production.

Tower's wholly owned subsidiary, Tower Resources Cameroon SA will remain operator of the Thali PSC under a joint operating agreement (JOA) and in the event that a formal farm-in agreement and approvals cannot be completed in time, OilLR will instead receive an appropriate share of Tower's share capital and intercompany loans in order to reflect the intended farm-in economics and JOA terms. This will be subject to shareholder agreement.

Although the HoT are binding, further documentation is required to complete the transaction and it is both parties intention to complete the transaction by 15 April 2020. This is subject to due diligence and OilLR having provided total payments to Tower of US\$7.5m into escrow by completion. Tower is also required to demonstrate that it has the funding for the balance of US\$15m-US\$16m (including funds already spent). The HoT will terminate automatically on 29 March 2020 in the event that Tower has not received proof for funding from OilLR.

### Conclusions

This agreement represents solid progress in the funding of the NJOM-3 well currently planned for spudding in June 2020, subject to the finalisation of a rig schedule and associated service company timetables. We note that Tower is also in discussions with additional parties regarding the farm-out of up to a further 24.5% interest in Thali on similar terms to those offered to OilLR. With this initial HoT already indicating an implied valuation for Thali of US\$30.6m compared to Tower's current market cap of only c.US\$4.8m for the company's current interest, we believe that a second farm-out has the potential to re-rate the shares given that Tower would be fully funded for the drilling of NJOM-3.

**THIS DOCUMENT IS NOT FOR PUBLICATION, DISTRIBUTION OR TRANSMISSION INTO THE UNITED STATES OF AMERICA, JAPAN, CANADA OR AUSTRALIA.**

### **Conflicts**

This is a non-independent marketing communication under the rules of the Financial Conduct Authority ("FCA"). The analyst who has prepared this report is aware that Turner Pope Investments (TPI) Limited ("TPI") has a relationship with the company covered in this report. Accordingly, the report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing by TPI or its clients ahead of the dissemination of investment research. TPI manages its conflicts in accordance with its conflict management policy. For example, TPI may provide services (including corporate finance advice) where the flow of information is restricted by a Chinese wall. Accordingly, information may be available to TPI that is not reflected in this document. TPI may have acted upon or used research recommendations before they have been published.

### **Risk Warnings**

Retail clients (as defined by the rules of the FCA) must not rely on this document. Any opinions expressed in this document are those of TPI's research analyst. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price. The value of securities, particularly those of smaller companies, can fall as well as rise and may be subject to large and sudden swings. In addition, the level of marketability of smaller company securities may result in significant trading spreads and sometimes may lead to difficulties in opening and/or closing positions. Past performance is not necessarily a guide to future performance and forecasts are not a reliable indicator of future results. AIM is a market designed primarily for emerging or smaller companies and the rules of this market are less demanding than those of the Official List of the UK Listing Authority; consequently AIM investments may not be suitable for some investors. Liquidity may be lower and hence some investments may be harder to realise.

### **Specific disclaimers**

TPI acts as joint broker to Tower Resources plc ("Tower") which is listed on the AIM Market of the London Stock Exchange ("AIM"). TPI's private and institutional clients may hold, subscribe for or buy or sell Tower's securities. Opinions and estimates in this document are entirely those of TPI as part of its internal research activity. TPI has no authority whatsoever to make any representation or warranty on behalf of Tower.

### **General disclaimers**

This document, which presents the views of TPI's research analyst, cannot be regarded as "investment research" in accordance with the FCA definition. The contents are based upon sources of information believed to be reliable but no warranty or representation, express or implied, is given as to their accuracy or completeness. Any opinion reflects TPI's judgement at the date of publication and neither TPI nor any of its directors or employees accepts any responsibility in respect of the information or recommendations contained herein which, moreover, are subject to change without notice. Any forecast or valuation given in this document is the theoretical result of a study of a range of possible outcomes and is not a forecast of a likely outcome or share price. TPI does not undertake to provide updates to any opinions or views expressed in this document. TPI accepts no liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document (except in respect of wilful default and to the extent that any such liability cannot be excluded by applicable law). The information in this document is published solely for information purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. The material contained in the document is general information intended for recipients who understand the risks associated with equity investment in smaller companies. It does not constitute a personal recommendation as defined by the FCA or take into account the particular investment objectives, financial situation or needs of individual investors nor provide any indication as to whether an investment, a course of action or the associated risks are suitable for the recipient. This document is approved and issued by TPI for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to professional clients, as defined by Directive 2004/39/EC as set out in the rules of the Financial Conduct Authority. This document may not be published, distributed or transmitted to persons in the United States of America, Japan, Canada or Australia. This document may not be copied or reproduced or re-distributed to any other person or organisation, in whole or in part, without TPI's prior written consent.

Copyright © 2020 Turner Pope Investments (TPI) Limited, all rights reserved.