



12 November 2021

LMS Capital PLC

COMPLETION OF LMS PREVIOUSLY ANNOUNCED INVESTMENT IN A PORTFOLIO OF OIL AND GAS PRODUCING ASSETS IN ROMANIA

LMS Capital PLC (“LMS”) is pleased to announce that all necessary regulatory approvals in Romania have now been received by Dacian Petroleum (“Dacian”), the Romanian oil and gas production company in which LMS has committed to invest, and the company should now be able to complete its purchase of an onshore oil and gas production business in Romania.

A further announcement will be made when completion has occurred.

Commenting on the transaction, Robert Rayne, chairman of LMS said:

“We are delighted that the transaction is now able to close. It has taken longer than anticipated to obtain the necessary regulatory approvals and get to this point – however our view has been that this represents an exciting cornerstone investment for LMS and that the wait was worthwhile. The management of “sunset” oil and gas assets is an important part of the world’s energy transition.

The terms of the transaction allow for upside from investment and development of the business. Since the transaction was first announced in 2020, energy prices have recovered, especially natural gas, and this will help Dacian’s operating cash flows – albeit we are mindful of the risk of future volatility in prices.”

SUMMARY

- LMS Capital PLC (“LMS”) announced in Q3 2020, its commitment to invest in Dacian Petroleum (“Dacian”), subject to Dacian receiving required approvals in Romania to proceed with the acquisition of a business operating onshore oil and gas fields in Romania
- Whilst it has taken longer than originally expected, Dacian has now received all required approvals from the Romanian Government, and the acquisition is

expected to close during November and Dacian will commence operating the business.

- **The business that has been acquired operates 40 onshore oil and gas fields with some 90 active wells currently producing approximately 1,050 barrels of oil equivalent per day ("boepd") – approximately 60% gas and 40% oil - with significant production upside and substantial unrecovered reserves**
- **LMS led an investment group to acquire a 50% interest in Dacian, with management holding the remaining 50%.**
- **LMS has itself invested US\$9.1 million in senior loan and equity capital to acquire a 32% holding in Dacian. Co-investors (including LMS Directors) hold 18%**
- **The investment by LMS and the Co-investors is structured almost entirely as senior debt, carrying a 14% annual coupon, which must be wholly repaid before any returns accrue to equity**
- **Dacian is a significant cornerstone investment that demonstrates LMS' ability to access deal flow in sectors where it has deep and long-standing relationships, knowledge experience, to introduce co- investors and to execute transactions.**

Rationale for the acquisition

The acquisition offers:

- the opportunity to acquire a business with a robust operating plan that is operationally cash flow positive from day one, expected to meet or exceed target returns and can withstand volatility in energy prices;
- a single focus on production and production enhancing technology that can allow the material extension of the productive life of mature properties, and in doing so, secure returns likely to be commensurately high versus the operating risk;
- a founder team with extensive industry experience and a local operational team in Romania with prior knowledge of the assets that are being acquired; and
- a portfolio of sunset life assets where the extension of life of aging assets allows for very low carbon footprint per barrel and molecule produced because the existing industrial infrastructure is put to further use. These assets are expected to continue oil and gas production for more than ten years.

Returns

Operating returns

The transaction is expected to be operationally cash flow positive from completion and is expected to produce returns to investors through both regular interest and dividend payments. The investment is expected to meet or exceed LMS' long term return criteria of 12% to 15% per annum.

The investment is structured as unsecured senior loans which carry a coupon of 14% per annum and a subscription for share capital for a nominal sum. The senior loans are expected to be repaid with interest over approximately 4 years. LMS holds \$9.1 million of the 14% senior loans and 32% of the outstanding ordinary shares. Interest accrues with effect from 20 September 2020 when funds for the transaction were conditionally transferred. The accrued net interest to date is approximately \$1 million.

Entry price

LMS believes that in relation to the oil and gas reserves believed to be in place, 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 in the oil and gas industry and has detailed prior knowledge of the assets included in the Business which, given their advanced stage of exploitation, have not been a strategic focus for investment by the previous owner.

The four founders together 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.

In addition to the founders, the senior management team includes individuals who have worked extensively in the oil industry in Romania.

Robust operating model - opportunity to add value

The Business being acquired is at an advanced stage of exploitation and has not been a strategic focus for the seller. This creates an opportunity to increase oil and gas production levels through field rejuvenation projects including optimization, workover and drilling activities that will extend the life of the well and fields.

These projects can be completed typically in less than one month, can be funded from operating cash flows, and the payback can be quickly assessed. Individual projects can be timed and scoped in response to market conditions including oil and gas prices.

We are confident the investment can meet or exceed our long-term criteria for returns of 12% to 15% per annum.

Background to the sale of the business

OMV Petrom SA, the vendor, is a Romanian integrated oil company majority 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.

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 mature oil and gas producing properties to recover remaining oil and gas reserves and to do so at a low carbon footprint. The main features of the Business being acquired are:

- 40 oil and gas fields, approximately 90 active wells, the land rights, equipment and assets used in production, and a workforce of 190 individuals currently employed in the Business;
- Current oil and gas production of approximately 1,050 boepd (60% gas; 40% oil); and
- Local independent petroleum engineering assessment has concluded that there are substantial remaining hydrocarbons in place for these fields.

Financing the acquisition

In order to finance the acquisition of the Business, fund transaction costs and provide cash for working capital and general corporate purposes, Dacian has raised \$20 million, of which \$14.0 million is from the Investor Group and the remainder through other borrowings. Dacian's obligations

with respect to the other borrowings are supported by a personal guarantee (the "Personal Guarantee") from one of Dacian's founders.

In addition, Dacian is required by the seller to cash collateralise a performance guarantee ("Performance Guarantee") in relation to certain obligations in respect of the Business. This guarantee is for \$5.0 million and is required to be set aside out of operating cash flows over the first three years.

The capital raised by Dacian of \$14.0 million from the Investor Group comprises:

- the issue to the Investor Group at the time of funding in September 2020 of \$14.0 million Unsecured Senior Loans ("Loans") maturing after 7 years and bearing interest at 14% from the date of issue in September 2020; and
- the issue to the Investor Group of 50% of the ordinary shares in the company.

So long as Dacian is current on its obligations with other borrowings and the Performance 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 from other borrowings and the Performance Guarantee have been satisfied.

No dividends can be paid on the ordinary shares until all obligations on the other borrowings have been fully satisfied, the Loans and interest thereon have been repaid in full and the outstanding amounts, if any, under the Personal Guarantee have been repaid.

LMS Capital has invested \$9.05 million in Loans and subscribed for ordinary shares, resulting in a holding of 32% in the ordinary shares of Dacian. Other members of the Investor Group will hold 18% and the founder group will hold 50%.

Investor Group

LMS' investment represents approximately 15% of its NAV at the time the commitment was made in August 2020 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 have invested \$1.125 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 have funded 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 between the senior loans and ordinary shares in Dacian.

ENQUIRIES:

LMS Capital PLC - 0207 935 3555

Robbie Rayne, Chairman

Nick Friedlos, Managing Director

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