

CANDOUR
ENERGY

Market Sentiment Survey
Q1 2019





Welcome to Candour's first marketing sentiment survey results of 2019

Candour's market sentiment survey is completed by our own extensive database of industry specialists. Unlike most market data, this gives an overview of how macro trends are influencing the people on the ground - from operations to boardroom. We have benchmarked Q1's results against the previous ones, giving us a clear idea of how market sentiment is evolving against a backdrop of continued uncertainty.

Pricing Complications

While we are experiencing a period of relative stability in oil price, there remains a reliance on OPEC's continued output restrictions to prop prices up. President Trump's aggressive push to reduce oil prices in order to stimulate the US economy means he is now putting pressure on OPEC to increase output. From Trump's perspective, this is a win-win scenario; OPEC would immediately increase revenue with a (presently) healthy oil price; and enable the country to win back market share from Iran.

However, this only complicates the situation in Saudi Arabia. The most obvious consequence will be that an increase in output will ultimately lead to a decline in oil price, particularly if China continues to support Iran; exactly what Saudi Arabia wants to avoid. In response, the Saudi's are making huge investments in infrastructure, to steer their economy away from a reliance on oil. And while the country has the world's lowest cost of recovery - approximately \$4 a barrel - Saudi Arabia's fiscal hurdle rate to finance its ambitions is thought to be more in the order of \$70 per barrel. Therefore, Saudi Arabia needs to increase revenues through either increases in production, or to continue cuts in an attempt to sustain oil price growth.

Exploration Anticipation

The regional changes are some of the most interesting results to come out of the survey. The headlines showed flatlining activity in the US, while regions like South America and Africa are expected to see sharper growth in activity. However, the crucial takeaway from the results is the material shift in anticipated activity from IRM to exploration and drilling activities, +18% points for exploration and +21% points for drilling, with IRM only increasing by 1% point - signalling a renewed focus in the capex market.

Below you will find a summary of Q1's results, a comparison with Q4, a selection of comments from the survey and some insight into what we believe are the reasons behind the market trends.

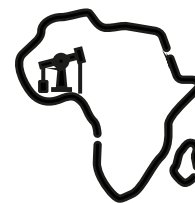


Merlyn Gregory, Candour's Managing Director, spent nine years providing strategic advisory services to clients in the energy sector. With Candour, she has built an expert network dedicated to the energy and industrials markets, offering invaluable insights and practical support to some of the world's largest corporates, private equity and strategic consulting firms.

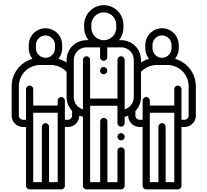
Response Snapshot



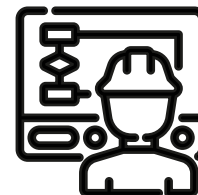
82% survey completion rate



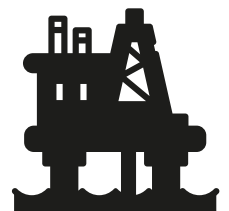
36% primarily focused on West Africa



75% with 15+ years' experience in the industry



55% based in the service and operating sectors

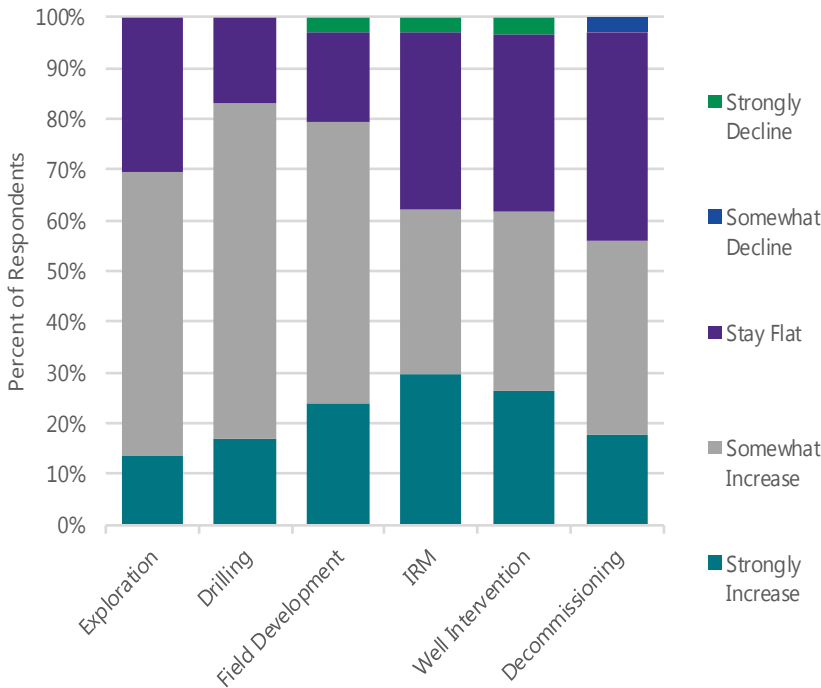


35% working in the offshore sector



Thinking about your organisation, how do you foresee activity in your region changing in the following areas in the coming 6-12 months?

Q1 2019



Price-driven Confidence

Market confidence is the defining factor when gauging the state of the oil and gas industry and nowhere is this more apparent than in the responses given to this question.

The suggested increase in exploration and drilling is simply a case of market confidence being restored as oil prices rose from the doldrums of 2018, driven by OPEC's ongoing supply cuts, US sanctions against Iran and Venezuela, and the thawing of tensions between the US and China.

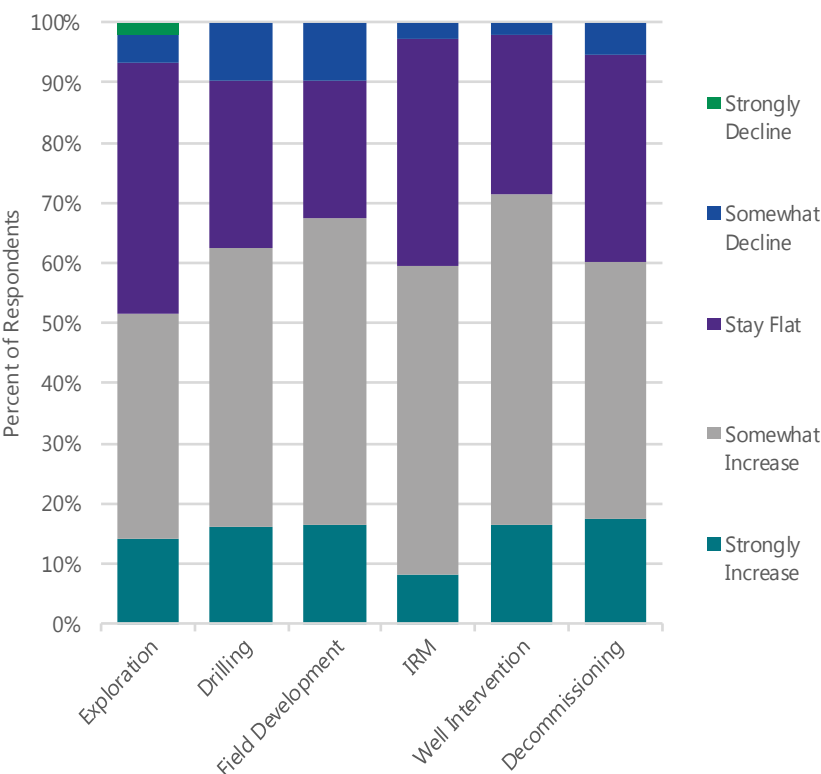
Rise in IRM

The biggest change between 2018 and 2019 is the expectation that IRM will significantly increase. Long periods of depressed activity have caused delays in non-critical maintenance activities, which has caused a growing backlog of equipment and assets that simply must be maintained to ensure continued functionality.

We expect to see a long period of maintenance activity and even upgrades over the coming year from both asset owners and service companies in preparation for a general rise in industry activity.

The sharp anticipated increase in both exploration and drilling is perhaps the most promising sign that an increase in activity will be sustained, as this is where budgets are most constrained during a market downturn.

Q4 2018

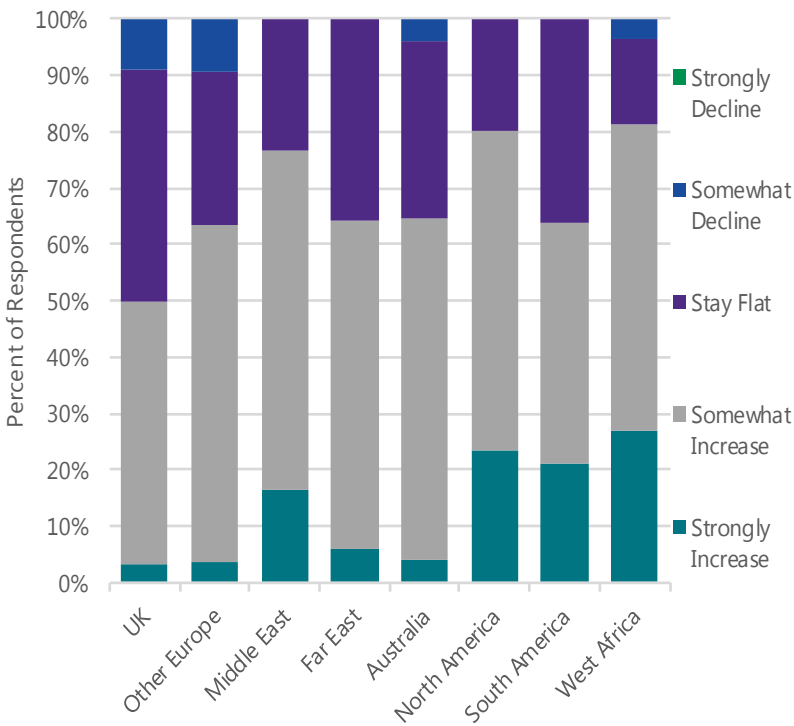


"The biggest opportunity for oil and gas companies is the potential to take advantage of low prices with service/equipment providers before they increase due to demand."



How do you foresee Oil and Gas market activity in the following 6-12 months changing in the coming 6-12 months?

Q1 2019



"The greatest risk facing the oil and gas industries is the possible global slowdown, particularly in China, to meet stringent emission norms."

Growing Global Certainty

As confidence seeps back into the oil and gas markets and companies begin to recover, activity across the globe is expected to increase steadily. The data shows that there was little change in the actual regions that are expected to prosper, but rather the difference was demonstrated in a greater level of certainty of increased activity. Nowhere was this more true than in West Africa.

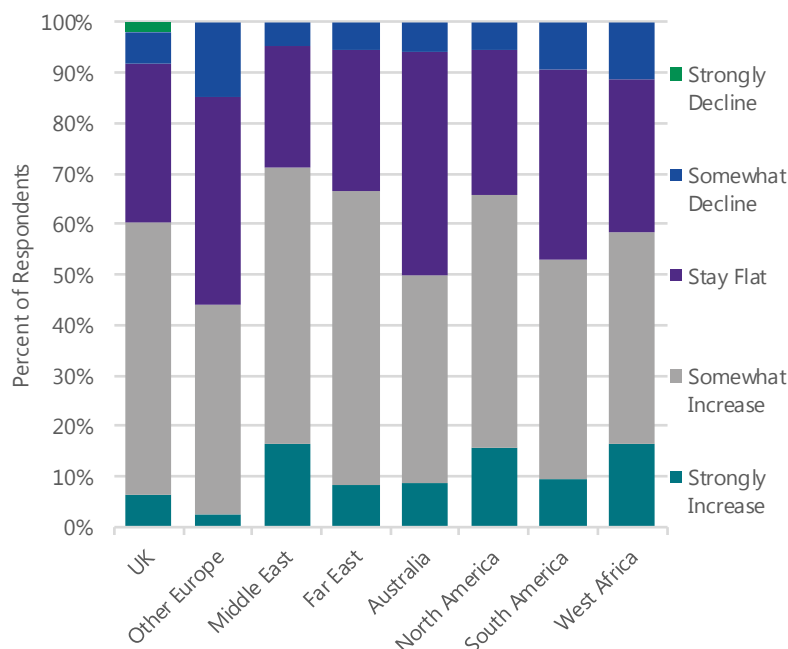
UK Decline

But let's start closer to home by looking at the UK where the results show a small drop in confidence in growth compared to Q4. Following a volatile 2018, many companies are looking to consolidate rather than grow in order to maintain cash flow. However, there are encouraging signs that E&P expenditure in the UK for 2019 will exceed last years' total. Add to this the discovery of the UK's biggest gasfield in more than a decade - enough to meet 5% of the UK's annual demand - and it is clear that this has gone a long way to restoring confidence which will naturally lead to further investment.

West African Rise

Elsewhere, sentiment suggests that West Africa is rising above its internal conflicts to take the steps necessary to capitalise on its abundance of untapped proven oil and gas reserves. It is no surprise that major oil companies have taken a keen interest in the region. Major investment has already taken place and is only expected to increase, with a figure of \$200 billion mooted over the next 7 years.

Q4 2018





What do you think is the biggest challenge or opportunity in the Oil & Gas sectors over the next 6-12 months?

Plugging the skills gap

It will come as no surprise to anyone that the oil and gas markets are dominated by longer tenured individuals. 98% of the respondents to the Q4 survey had worked in the industry for over 10 years which is a staggering figure and brings to life one of the key findings from our results - the knowledge and skills gap.

This long-term issue has been the elephant in the room for some time now and has given various parties cause to worry about how these veterans of the industry will be replaced when they retire or leave for pastures new. These people leave a huge gap in knowledge, skills and experience that is not easy to plug. To illustrate the scale of the problem, in Canada alone, 88,000 jobs in oil and gas opened up due to retirements in 2018.

Not only do companies lose the knowledge and experience, but also the relationships with customers and clients.

The problem itself is twofold. As mentioned, the loss of knowledge and vital experience is obvious. But the second part of the problem is arguably far greater - replacing and retaining highly skilled younger workers. The primary obstacle to this is a simple one; younger people struggle to see the longevity in the oil and gas sectors and have a fundamental moral objection to the impact these sectors undoubtedly have on our environment.

It was encouraging to see a greater percentage of less experienced workers take part in the survey this time round as it allows us to obtain a better understanding of what the market looks like to newcomers.



"To reduce investment costs and expenses as well increasing profits from lower crude prices"

"Being profitable when our customers are forced to operate within their cash flow"

"Enough quality and experienced personnel to both lead and delivery / take advantage of the upturn in activity"

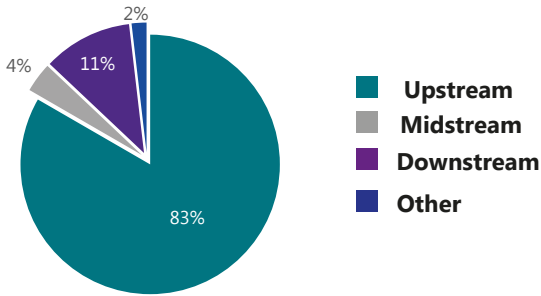
"The likely skills shortage as activity ramps up"



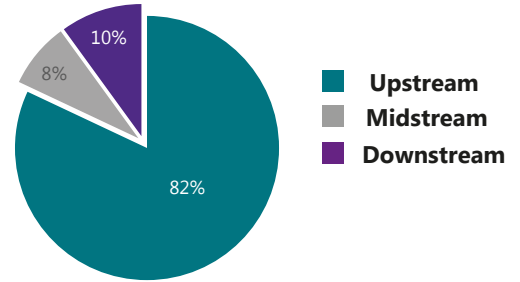
Respondent Trends

Q4 2018

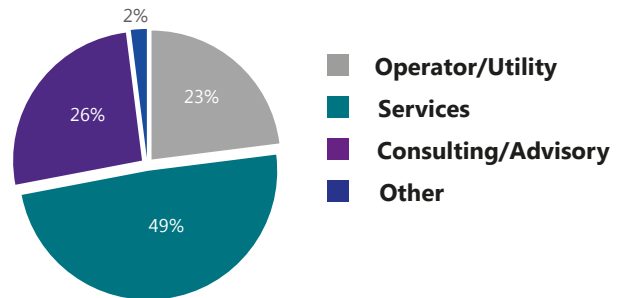
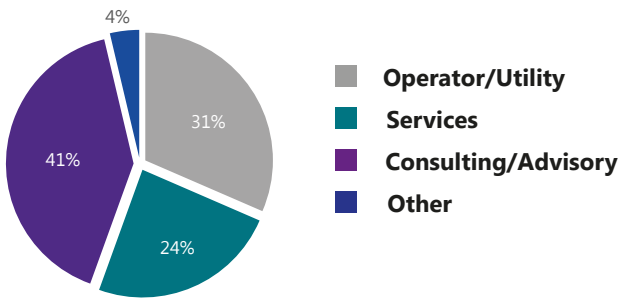
Which Sector is most applicable to you?



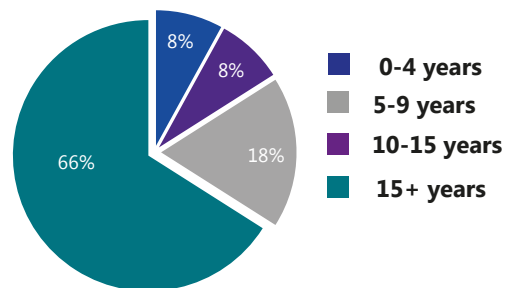
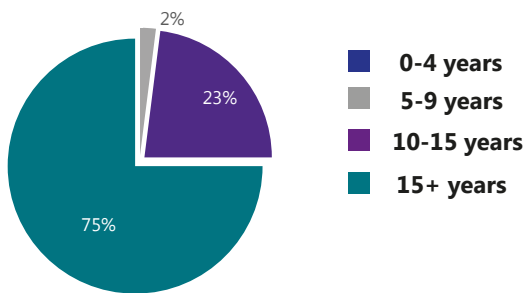
Q1 2019



What does your company do?



How many years' experience do you have in the Oil & Gas industry?



As expected, and in line with the previous survey, the majority of our respondents work in the upstream sector, arguably the most technically complex and diverse area of the industry. Note the increase in response from midstream experts - something we were lacking in our last results - which will provide us with fresh insights from alternative perspectives.

What we did not expect, was to see a significant change in the types of companies we spoke to. The swing from a majority working in consultancy roles and operations to those in the service sector has had a noticeable impact on market sentiment.

"The biggest challenge we face is addressing the skills shortage and hiring talent"

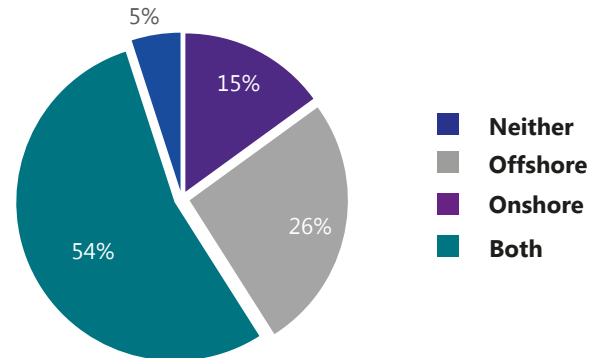
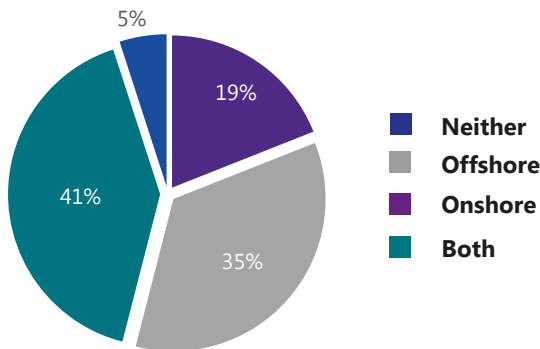


Respondent Trends (cont.)

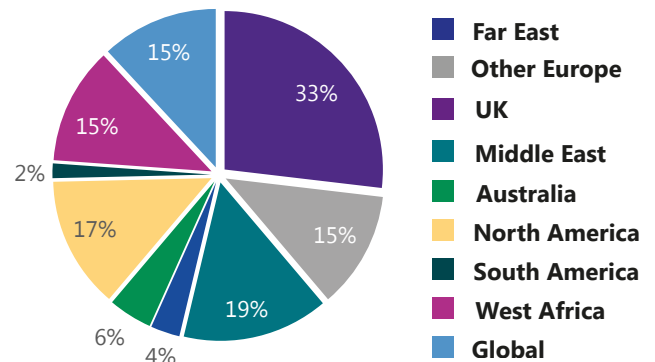
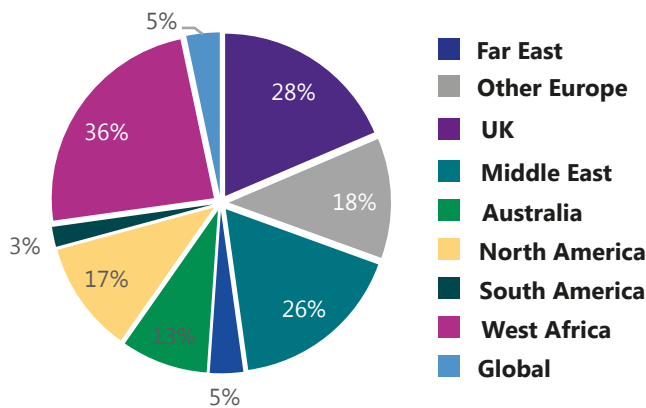
Q4 2018

Q1 2019

Does your current role focus primarily on onshore or offshore developments?



Which is your primary region of focus at the present time?



A slight increase in UK respondents had a tangible impact on our results, especially in the anticipated uptake in UK activity. This was the only region that we cover where there was an increase in respondents compared to our last survey (excluding global). Whether this is a sign of recovery that will lead to further projects being green lit in the UK, will be something to track in later surveys.

Interestingly, fewer respondents (-19% points) said that their primary region of focus was West Africa. This was despite West Africa emerging as the region where most experts were confident that

activity would increase over the next 6 to 12 months. Based on this, it would be reasonable to expect future surveys to feature more and more West African focused experts.

Elsewhere, North America remained static as a region of focus, despite 80% of our respondents concurring that activity would increase in the region over the coming months. This gap in sentiment and activity could be explained by US based companies acting with caution and still gradually recovering from the downturn experienced in 2018.



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Our services include:

- Market Information
- Competitor Commentary
- Product and Service Overviews
- Technological Overviews
- Regional Overviews
- Operational Knowledge

The energy and industrials markets are dynamic and cyclical and are supported by an extensive and diverse supply chain. Candour has the expertise to equip you with the knowledge you need.

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