Nido Petroleum Limited

Company Insight
the intelligent market update

**Nido Petroleum Limited** **Date of Lodgement: 14/2/13**

# Title: Company Insight - Nido's Strong Cash Outlook

**Highlights of Interview**

- **Explains why Nido expects to effectively address $3.8 million Share Purchase Plan shortfall**
- **Outlines Galoc Phase II's development progress and the Company's expected cash position at the end of the first quarter of 2013**
- **Details the expected first annualised revenues from Galoc of US$80 million and an expected substantial positive net impact on Nido's cashflows**
- **Outlines the underlying factors that enable this strong transformational effect – Galoc's strong underlying economics, cashflow responsiveness once fixed costs are covered, and management's decision to trim corporate overheads**
- **Summarises Nido's commercial strategy including how the Company expects future activities to be funded**

**Record of interview:**
With Phil Byrne, Managing Director of Nido Petroleum Limited (ASX code NDO; market capitalisation ~$59 million).

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What steps are you taking to deal with the approximately $3.8 million SPP (Share Purchase Plan) shortfall. What are the prospects of effectively addressing the shortfall, and what is the basis for your view?

**Phil Byrne, Managing Director**
We're discussing with our advisors Canaccord Genuity on how best to place these shares and we've received strong interest from both existing and potential new investors on the issue - so we expect the shortfall to be placed as soon as practically possible.

Nido's share price has been trading consistently above the issue price of 2.7 cents for some time now, and we're confident in the underlying fundamentals, so we have a good level of comfort here.

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On the basis that the shortfall is placed, what is Nido's expected cash position at the end of Q1 2013 (i.e. the first quarter of 2013)?

**Phil Byrne**
On that basis Nido expects to end Q1 2013 with approximately $27 million in gross cash on hand, and since we don't expect to draw further on the debt facility in the first quarter (currently drawn to $9 million) we expect to end the quarter with around $18 million in net cash. These estimates are in line with expenditure and revenue guidance provided in previous ASX lodgements.

This is a very sound cash position. Together with ongoing revenue from the Galoc Phase I production and the reserves-based debt facility with Standard Bank and Credit Suisse for a maximum of US$30 million, it ensures Nido is fully funded for the Galoc Phase II development, other pre-development activity and two exploration wells planned in the next year.

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How is the Galoc Phase II development progressing?

**Phil Byrne**
The project is progressing on schedule – towards the target of first oil in the second half of 2013.

Since the Final Investment Decision (FID) decision was made in September 2012, key contracts have been awarded, the project team has been mobilised, and they're working from new offices closer to the operation. Rig mobilisation is expected to occur in Q2 2013 with subsea installation and drilling being conducted over Q2 and Q3 2013.

As at the end of January 2013 Nido has already spent approximately 18% of the estimated total CAPEX of US$43 million and as I've mentioned, the balance is funded from existing cash and our facility.

Nido is therefore well on the way to delivering on its fundamental strategy of maximising production from its core assets.

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In assessing the cash flows from Galoc Phase II – as a starting point - what annualised revenues does this development generate?

**Phil Byrne**
We expect the Phase II development will increase production from the field from a current 5,000 barrels of oil per day (bopd) gross to an initial rate of over 12,000 bopd at the commencement of Phase II production, with Nido's net share being around 2,700 bopd based on our 22.879% working interest.

Galoc crude is a quality product that has consistently realised an oil price above the US$110 per barrel mark over the last year and we expect oil prices over the next period to remain at or around

US$100 per barrel. Following ramp-up and testing of the new wells, in the first year of production post first oil from Phase II, Nido could reasonably expect at least 10 cargoes to be lifted from the field and sold (at an average gross cargo size of 350,000 barrels).

After ramp-up, therefore, Nido's share would be around 800,000 barrels lifted and sold within the first 12 months - equating to around US$80 million in net revenue to Nido in the first year.

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Taking this analysis a step further – what do you expect to be Nido's additional net cash flows from Galoc Phase II, and how will Nido's overall cash position be affected?

**Phil Byrne**
The important point to appreciate is that most of the costs associated with the Galoc OPEX are fixed and should not vary significantly from levels seen over the last few years. Thus, based on annualised revenues of $US80 million calculated as I've described above, Nido's cash flow generated from the Galoc field after production OPEX and providing for tax and government share payments, estimated corporate overheads of around A$6.5 million per year (a 20% reduction on 2012) and debt servicing costs, results in free cash flow before repayment of debt that could reasonably be expected to be around A$45 million in the first year. There are obviously a lot of variables that contribute to this estimated cash flow number as well as a significant amount of management judgement and estimation, nevertheless we consider this estimate is not unreasonable should the production rate estimates and oil price forecast hold true.

This is an extremely healthy outcome, and it holds important implications - first, in terms of Nido's value and secondly, in terms of the Company's ability to reinvest in exploration and development.

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Your assessment suggests very strong economics for Galoc once Galoc Phase II is factored in. What are the underlying factors that give Galoc such a strong transformational effect?

**Phil Byrne**
There are three important factors here.

First, Galoc has very strong underlying economics. We estimate a payback on our Phase II investment prior to the end of 2014 – and adopting the relevant field projections a current economic life of around 2020.

Secondly, with the production OPEX being largely fixed costs in nature, the introduction of additional production and revenues from the Galoc Phase II wells will therefore in large proportion flow through to Nido. Obviously there is a period where cash flows will be directed towards debt servicing and repayments, though as noted above this should occur within 12-18 months after first oil from Phase II, subject to other activity.

Thirdly, we're initiating cost rationalisations, something I've touched on above. We expect to be able to reduce corporate overheads by around 20% this year - as part of Nido's closer focus on strategic exploration and production activities – which will benefit the bottom line.

In other words, we are developing Galoc - and managing Nido's prospects - in a clear, purposeful and cost-effective way.

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Given the estimated free cash flow expected, where does Nido plan to reinvest these funds?

**Phil Byrne**
Nido has two near term development opportunities, the West Linapacan field redevelopment in SC14-C2 and the Nido 1x1 field development in SC54A/SC14A. At this point we are hopeful of successfully completing a farm-out of the Nido 1x1 development opportunity and therefore being funded through that process.

For the redevelopment of the West Linapacan oil field we expect that the CAPEX will be majority funded through Galoc free cash flows, though should we require debt funding Nido has established strong relationships with Standard Bank and Credit Suisse through the Galoc oil field debt facility and so I would expect we'd also explore funding options with them at the right time. At this point, we certainly don't see any issues in funding our share of the development of West Linapacan which is expected in 2014.

Nido will also look use free cash flow from Galoc production to drill exploration wells both within our existing acreage and from new acreage in the future.

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Overall, how would you summarise the commercial strategy that you and Nido are developing?

**Phil Byrne**
The past year's work builds on the Company's previous efforts, and has set Nido on very solid footing. The Company enters 2013 with a sound cash position, and with the expansion of the Galoc oil field through the Phase II development, we expect to generate good cash flows over time.

Thus, our actions and positioning should enable Nido to continue to grow through the development of our existing discovered resources at West Linapacan and the Nido 1x1 fields and through exploration drilling – ultimately enabling the Company to be transformed from a junior explorer to a mid-tier producer. With these resources, our team has the skills in both the exploration and development spheres to build this balanced outcome.

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Thank you Phil.

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Qualifying Statement

This release may include forward-looking statements. These forward-looking statements are based on Nido's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Nido, which could cause actual results to differ materially from such statements. Nido makes no undertaking to subsequently update or revise the forward-looking statements made in this release, to reflect the circumstances or events after the date of that release.

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