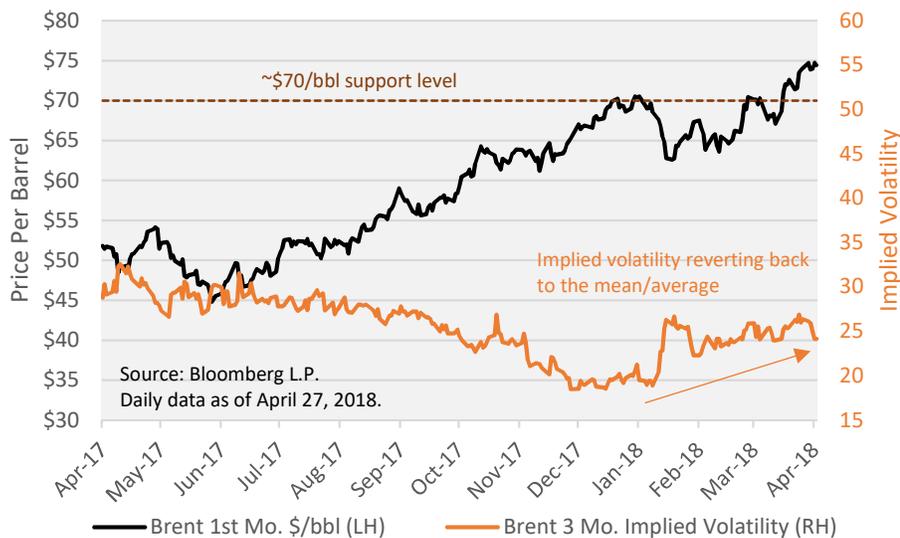




## Oil Report – The Ball is in Saudi Arabia’s Court

Exhibit 1 **Brent Daily Prices & Volatility**



- **Executive Summary:** Speculation of sanctions on Iran and the signaling by OPEC of an extension to the production cuts into 2019 has led to a breakout of oil prices to the upside. In the background, supplies have been tightening as Venezuela slips further into turmoil and tensions in the Middle East have increased after a chemical attack in Syria. Meanwhile, the IMF reaffirmed their forecast for strong economic growth.

- **Exhibit 1:** The breakout of the Brent 1<sup>st</sup> month contract has created a new support level at \$70/bbl. Time will tell if this holds given a May 12 deadline that would potentially determine if the U.S. re-imposes sanctions on Iran. The options market is pricing in an increase in future volatility with implied volatility trending back towards its 5-year average at 30%.

- “Snap-back” has been the word du jour as traders assess the likelihood of sanctions being re-imposed on Iran that would limit their oil exports. This is in light of the May 12 deadline for U.S. and European signatories to reach an agreement on a re-engineered Iran nuclear deal.

- **Exhibit 2:** The recent Brent futures curve has steepened further into backwardation while the long end of the curve continues to be well anchored between \$56/bbl and \$59/bbl. With prices remaining stable at the long end, this provides the oil majors additional confidence when approving long term offshore projects.

- "It is becoming increasingly likely that the [oil] industry will face growing supply challenges over the coming year and a significant increase in global E&P investment will be required to minimize the impending deficit" - Schlumberger Chief Executive Officer, Paal Kibsgaard.

- Clarksons offshore drilling report for April showed a MoM increase of 2x units in the count of active floaters (deepwater) to 143x.

Exhibit 2 **Brent Futures Curves**

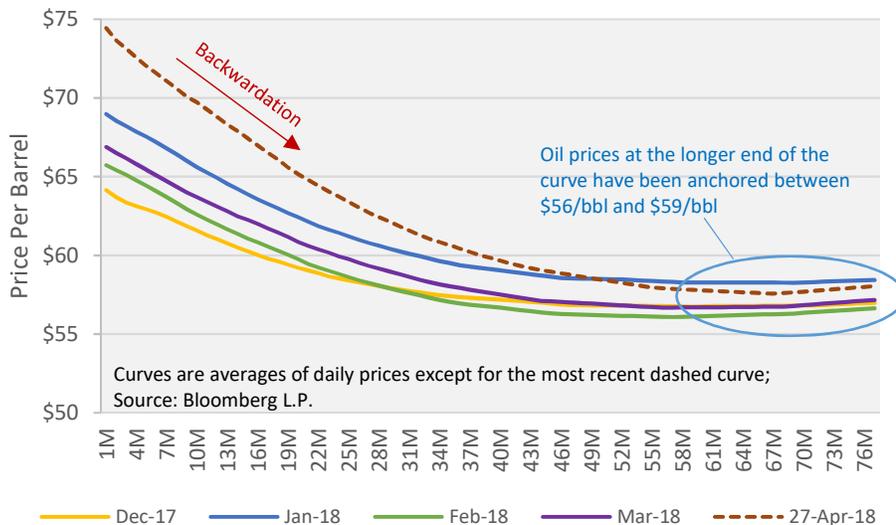
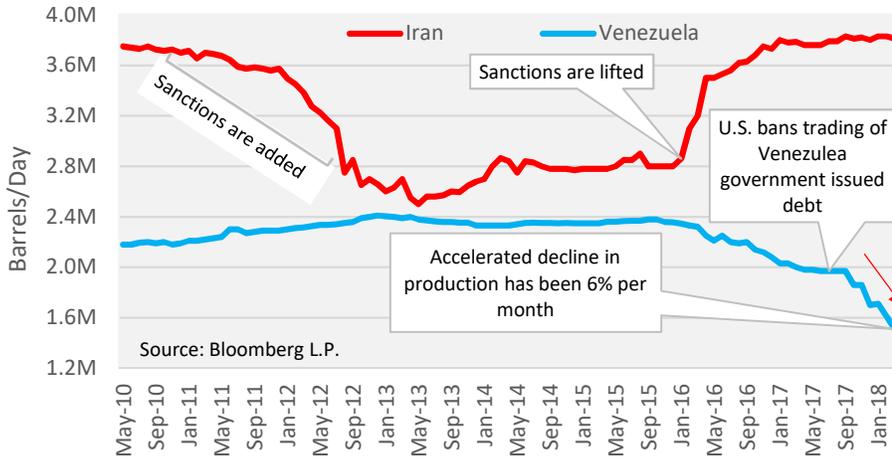


Exhibit 3

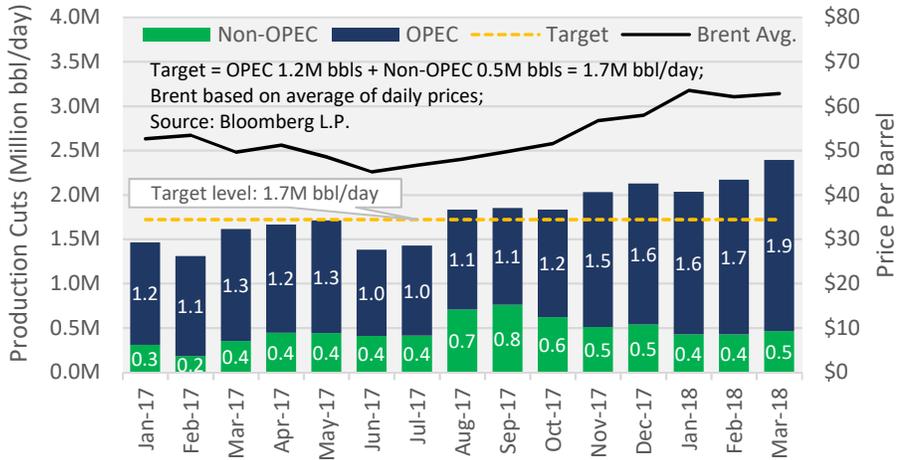
### Iran & Venezuela Crude Oil Production



- **Exhibit 3:** Iran's oil production has recovered by 1M bbl/day since sanctions were lifted in January 2016. If a snap-back to sanctions were to occur, analysts estimate that the decline in production could range from 500K bbl/day to 800K bbl/day. Separately, Venezuela's woes continue as its production declines have accelerated.
- According to Reuters, ~25K workers for PDVSA, Venezuela's national oil company, have resigned from January 2017 to January 2018. The last official report on the number of PDVSA employees stands at 146K in 2016.
- The Caracas Stock Exchange Index (Venezuela) has surged 1,584% YTD (April 26) and 3,884% in 2017. With quadruple inflation, local businesses and individuals are piling into the stock market in a desperate attempt to protect their savings from the plummeting domestic currency (Bloomberg, April 26).

Exhibit 4

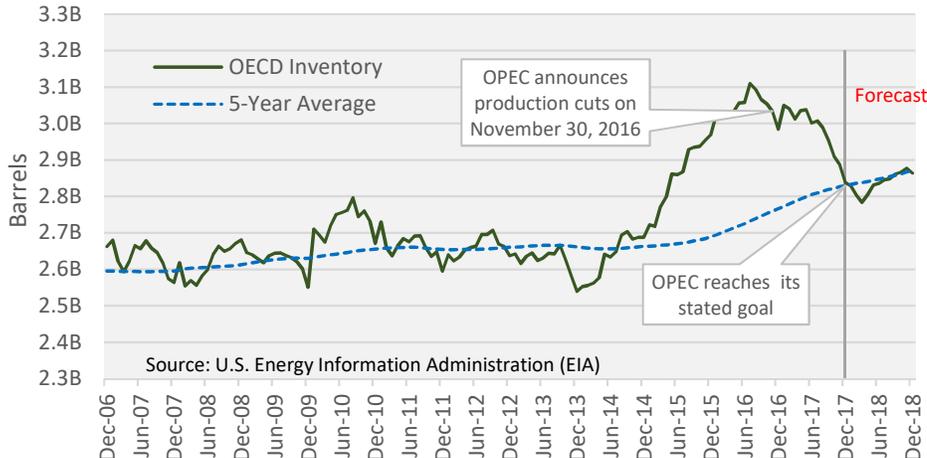
### OPEC/Non-OPEC Production Cuts



- **Exhibit 4:** Venezuela is the driver of the OPEC cuts exceeding the target level with a production decline for March 2018 of 570K bbl/day versus the 95K bbl/day cut that was agreed. Saudi Arabia has also exceeded its cut in March with a decline of 610K bbl/day versus the agreed 486K bbl/day.
- According to the International Energy Agency (IEA), global oil demand is expected to grow by 1.5M bbl/day in 2018. As a comparison, the increase in U.S. production projected for 2018 by the Energy Information Administration (EIA) is 1.4M bbl/day followed by 0.7M bbl/day for 2019. This would indicate that global demand growth more than offsets the growth in U.S. production from shale.

Exhibit 5

### OECD Crude Oil & Liquid Fuel Inventory (EIA)



- The International Monetary Fund reaffirmed its global GDP growth forecast for 2018 at 3.9%. This is the fastest pace since 2011.
- **Exhibit 5:** At the outset of the OPEC/Non-OPEC production cuts, reaching the 5-year average of OECD inventories was cited as a goal. However, having met that goal, Saudi Arabia, as de facto leader of OPEC, has indicated an extension of the cuts into 2019.
- Parties to the OPEC/Non-OPEC production cuts met on April 20, in Jeddah, Saudi Arabia to discuss an extension beyond 2018. "We have to be patient. We shouldn't jump the gun, we shouldn't be complacent and listen to some of the noise such as 'mission accomplished'. I think we still have work ahead of us." – Saudi Arabia's Energy Minister, Khalid al-Falih.

## In the News

**Waypoint Leasing places H135 Helicopter with ALT in Germany** – This is the first transaction between Waypoint and ADAC Luftfahrt Technik GmbH (“ALT”) and marks Waypoint’s seventh H135 delivery. The aircraft will be used for pilot training purposes (April 25).

**Japan Coast Guard adds to H225 fleet with additional order** – Airbus Helicopters has secured an additional order for its H225. Through the order, the Japan Coast Guard will become the largest operator of Super Pumas in Japan by March 2021 with 13 units (April 25).

**Transport Canada approves 1,200-lb. S-92 gross weight expansion** – The government approval allows Canadian operators to benefit from an increase in the S-92’s maximum takeoff weight (MTOW) from 26,500 to 27,700 pounds. The same modification was approved by the Federal Aviation Administration in 2015 (April 23).

**CHC Norway wins contract extension with Aker BP** – The two-year contract is for 2x AS332L and will support Aker BP with their infield shuttle in the North Sea. The contract will run until September 2021. (April 16).

**CHC Australia secures Search and Rescue continuation with RAAF** – As part of the contract, CHC will replace the S76 SAR fleet with 6x AW139 for the Royal Australian Airforce. One of the aircraft has been delivered and the remaining five will be rolled out throughout 2018. (April 16).

**Bristow receives a three-year contract extension** – The crew change contract is for an S92 in Central North Sea. The contract end user was not announced (April 18).

**Offshore wind sector to be augmented by new Dutch helicopter terminal** – A new helicopter terminal at Zeeland Airport opened on April 25 offering transport services to the offshore wind energy sector (Energy Voice, April 26).

**CHC Introduces New Latin America Base** – The 300 square meter facility at the Bartolomeu Lisandro Airport will support Shell’s operations with AW139(s) and ~30 employees. Operations began on April 2.

**Statoil awards \$1.5B in contracts for the second phase development of the Johan Sverdrup oil field** - The contracts were awarded to three companies for the building of a platform and other work. Production from phase two is expected in 2022. The field is located 160 kilometers west of Stavanger, Norway. At its peak, the field will represent 25% of Norway’s oil production (April 5).

**Aasta Hansteen production platform heads to Norwegian Sea** – The tow-out of the platform in April has been labeled by Statoil as the largest since 1996. Its destination is the Aasta Hansteen gas field located in 1300 meters of water and 300 kilometers off Norway. The platform has accommodation for 108 people with production expected in 4Q 2018.

**Eni announces plan to spend \$1.1B per year on exploration** – In a presentation to the financial community, Eni laid out plans to increase production by 3.5% per year over the next four years and discover 2 billion barrels of resources. “We are now entering a new phase of expansion, which will allow us to further strengthen the company and increase value for our shareholders” – Eni CEO, Claudio Descalzi (April 10).

**Offshore comeback means more people needed in subsea engineering** - “With the cost cuts E&P companies made during the downturn coupled with the recent increase in the price of oil, we see a number of offshore projects in the pipeline. This will require a significant amount of personnel to re-enter the subsea engineering industry” - Rystad (April 19).

**Oceaneering International anticipates higher subsea orders in 2H 2018** – “We continue to project an increase in offshore activities and contract awards during the second half of 2018, which should result in a Subsea Products book-to-bill ratio exceeding 1.0 for the full year” (April 25).

**Statoil awards \$1.5 billion in drilling contracts** – The contracts are for drilling, completion, intervention services, plugging, maintenance and modifications on 18 of Statoil’s fixed platforms. Work is to begin on October 1 for a period of four years with 3x two-year extension options and employment for 2,000 people per year (April 3).

**Golar LNG provisionally agrees to provide a Floating Liquefied Natural Gas (FLNG) vessel to BP** – The deal is for the Tortue/Ahmeyim field development offshore Mauritania and Senegal (April 20).

**Shell makes final investment decision for Vito development** – Located in the Gulf of Mexico and ~150 miles southeast of New Orleans, the estimated breakeven of the project is \$35/bbl. Production is scheduled for 2021 and expected to reach a peak of 100K barrels of oil equivalent per day (April 25).

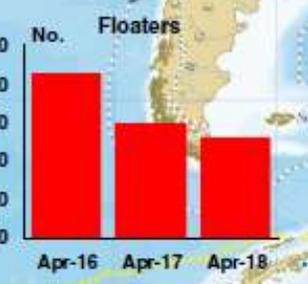
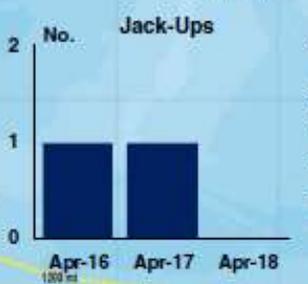
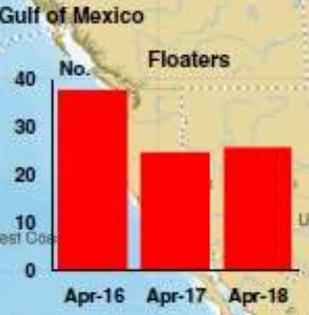
Clarksons Research – Offshore Drilling Rig Report – April 2018

Graphs show the number of active rigs in key drilling areas at the start of this month, one year ago and two years ago.

Blue: number of active jack-up rigs.

Red: number of active floaters (semi subs and drillships).

Floater	Apr-16	Apr-17	Apr-18	YoY Δ
US GoM	38	25	26	1
Mexico GoM	5	3	2	-1
Brazil	43	30	26	-4
Total	86	58	54	-4

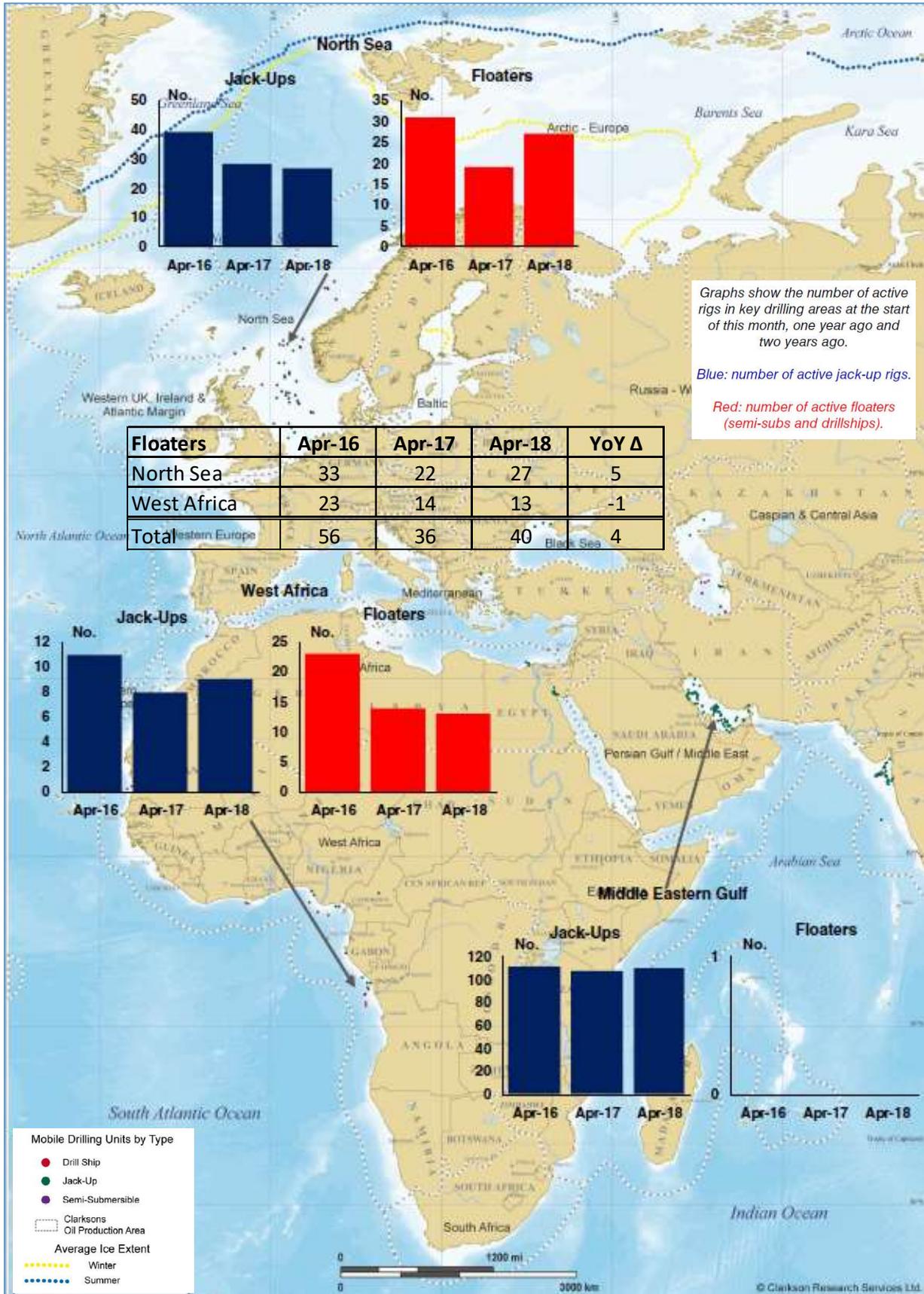


**Mobile Drilling Units by Type**

- Drill Ship
- Jack-Up
- Semi-Submersible
- Clarkson's Oil Production Area
- Average Ice Extent**
- ⋯ Winter
- ⋯ Summer



Clarksons Research – Offshore Drilling Rig Report – April 2018



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