

Hyperdynamics Corporation
Investor Update Conference Call Transcript
July 6, 2017

Operator:

Greetings, and welcome to the Hyperdynamics Corporation conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Anne Pearson. Thank you, Ms. Pearson. You may begin.

Anne Pearson:

Thank you, Doug, and good morning, everyone. Before I turn the call over to Ray Leonard for his formal remarks, I have a few of the usual items we need to cover. First, Ray will be referring to several slides during his prepared remarks. You can find those slides on Hyperdynamics' Website in the Investor Relations section under Events and Presentations for today's call event. If you have access to the Internet, you may want to go ahead and do that now so that you can follow along with Ray.

A replay of today's call will be available by Webcast and also by telephone replay. You can find that replay information in Monday's news release announcing today's call.

As a reminder, information reported on this call speaks only as of today, July 6th, 2017. So, any time-sensitive information may not be accurate at the time of a replay. Management may make forward-looking statements based on beliefs and assumptions and information currently available to them today, but they can give no assurance they'll prove to be correct. They're subject to certain risks and uncertainties and assumptions that are described in recent public filings with the SEC. So, if one or more of these risks materialize or other underlying assumptions prove to be incorrect, actual results may vary materially.

Also, several of you pre-submitted questions for Ray to address after his opening remarks. As time allows, Ray will also take a few live questions if there are any.

Now, I'd like to turn the call over to Ray Leonard, Hyperdynamics' President and CEO. Ray?

Ray Leonard:

Thanks, Anne, and good morning, everyone. Thanks for joining us on the call. Today, I'd like to update you on what we've been working on since we last spoke with you on several specific areas.

First, I'll provide a technical update on what we've recently learned from a geologic perspective about the prospects on our 5,000-square-kilometer concession in offshore Guinea. Next, I'll give you an operational update on the progress of our mobilization and getting the rig ready to spud the Fatala1 well at the end of this month. And finally, I'll talk about our strategy as we move forward through the drilling phase.

We're in 24/7 mode right now and preparing to spud this high-potential exploration well, and are looking forward to what may come after that. From a technical or geologic perspective, we continue to refine our view of the Fatala prospect. And it just gets better with every pass.

We've recently mapped three additional fan features on the prospect. Now, the initial well, Fatala 1, will aim for the sweet spot of the best fan of the four, and it will only touch the edges of the other two fans.

We have a series of four slides that you can access that show the main fan and the two additional zones. It shows the initial well right in the center of the best of the fans and just touching the edge of two other fans, and it won't touch the fourth fan. With the success in the first well, of course, we'll be appraising the additional wells.

Now, our recoverable resource estimate of almost 650 million barrels of oil is just for the main zone shown in the first slide. And it's based on the oil-water contact as we've seen it on the seismic gathers on the data that was reprocessed late last year by the specialty seismic consultant eSeis here in Houston.

The potential resources in the additional fans that would only be tested in the follow-up appraisal wells could significantly increase the Fatala reserves above that 650 million barrels.

If you look at the slide that summarizes the Fatala prospect, you can see the 650 million barrels is the base case. The initial well that wouldn't go all the way down to the oil/water contact would prove up 310 million, which would make it a commercial well. And as I said before, additional appraisal wells could move you well beyond that 650-million-barrel resource estimate.

Now, by contrast, the 647-million-barrel mean estimate from the 2016 Netherland Sewell report was based on a total from four zones. So, you can see that the reprocessing and remapping have not only increased the chance of success of Fatala, but have made the prospect materially larger.

We've also completed our technical evaluation of the Bamboo prospect, which is similar to Fatala, and actually of a comparable size. And we've agreed with our partner SAPETRO for Bamboo to be the follow-up well if we have encouragement from the Fatala 1 well.

The recoverable resource estimate for Bamboo is 560 million barrels of oil on the primary sand only, which is based on the 5,700-meter depth oil/water contact, which we've seen on the seismic. And you can see that on the next slide.

As with Fatala, there are additional fans that have been found on the Bamboo prospect, which would be tested in appraisal wells. And as with Fatala, the eSeis work has significantly increased the size of the prospect; if you go back to the Netherland Sewell report, the recoverable estimate for Bamboo was only 314 million barrels total from multiple zones.

And as you'll remember from last fall, the reprocessing by eSeis resulted in a major data quality improvement. And it also showed the direct indicators of hydrocarbon and trap seal.

Now, there are very few rank exploration wells drilled around the world that receive such a high probability of success from a major reserve engineering firm like Netherland Sewell. And I'd like to remind you on top of this the additional technical work, such as identifying the oil/water contact, performed jointly with eSeis and with our work and with partners that took a look at potentially farming in, it has further derisked the prospects, not only increasing the resource size, but increasing the chance of success.

Now, I'd like to move to the operations activity. We've engaged all the various teams who need to operate this well. And as I mentioned a moment ago, they're running 24/7 to get ready to spud the well.

When we pushed the "go" button to shift into full mobilization mode following the closing of our farm-in agreement with SAPETRO on June 5th, the inventories in the Ivory Coast and Ghana bases for much of the materials and equipment that we need had been seriously depleted due to recent activity, both drilling and developmental on the Transform Margin zone.

Now, this somewhat complicated the mobilization process, but we're working through this issue with Schlumberger, who's our integrated project manager for the drilling services. And through intensive efforts, we have been able to identify all of the necessary equipment and supplies needed for the well and make them available.

To expedite this process of sourcing and transporting equipment and supplies and to minimize the standby time for the Pacific Scirocco, we'll have boats coming from eight countries to make these deliveries to Guinea during the month of July, as shown in the next slide. The boats have been contracted, and they're in the process of being loaded, in some cases actually on the way to Guinea. So, we expect to be able to acquire everything we need without compromising on quality or efficiency in time for an end of July spud date.

The Pacific Scirocco drillship is in Guinea waters right now receiving the drilling equipment and materials. The last of the drillship crew arrived this week, and the rig inspection will be taking place next week.

On July 14th and 15th, we'll be going through an intensive drilling program execution review called "Drilling the Well on Paper." This two-day review will help us identify improvements in communication, safety, efficiency, and overall performance of the drilling process, and it looks at what-if contingency planning. We expect to have all aspects of the operation ready to go by the end of this month.

The Fatala well is currently estimated to take about 42 days to reach a total depth below the mudline in a base case, although in a best-case scenario with zero downtime we could reduce as many as 10 days off that 42-day timeframe with significant cost saving.

One historical piece of interest is the Pacific Scirocco in its four-year job with Total had an average of 2 percent downtime.

The well plan and timing is shown on the next slide. The preliminary prospective oil-bearing reservoir lies about 2,000 meters below mudline, which means, in the base-case scenario, we expect it to penetrate in less than 30 days following the spudding of the well.

We're very eager to get started, obviously. We're confident that we have the best drillship, the best equipment and supplies, the best crews, and the perfect integrated project manager Schlumberger. And I can't say enough about how well they've worked and how hard they've worked to make this a success, and the vendors to make the drilling of the Fatala 1 go as smoothly as possible.

And we're hopeful that our collective patience and perseverance over the last four years will be rewarded very shortly with a discovery.

Now, I'll move to our finances. We've been working with the financing element through several stages. When we made the decision to accept a legal settlement offer from our former partners in the concession Tullow and Donna, rather than fight them in court to get the well drilled, and then applied for a one-year extension to enable us to move forward as operator last September, we had about \$8 million in cash. We'd spent virtually all of that by February on work directly related to the Fatala exploration project.

In March and April, we did a preferred convertible offering with Series A units, which raised about \$2 million and was really the first phase of the new funding. This provided the working capital we needed to finalize a farm-out agreement with a partner and to work with the government of Guinea on all the various permitting and logistical agreements we needed to put in place to drill the well.

Now, because of the slower-than-anticipated capital raising process, the original target date of April to begin well operations had to shift to late May when the Pacific Scirocco entered Guinea waters and we began the preparations to drill.

We achieved closure in the beginning of June with SAPETRO, received the completion payment of \$4.1 million, and from that point on, SAPETRO was responsible for paying half of the project costs.

Recently, we closed on the sale of units consisting of common stock and warrants for gross proceeds of approximately \$6.3 million on terms and conditions disclosed in our SEC filings and placed on our Website. Investors for the second tranche of the Series A preferred convertible have the option to invest up to an additional \$3 million.

We're working closely with Pacific Drilling and Schlumberger to ensure that the operations and payment schedule is covered in an efficient and timely manner. We'll be continuing to seek to raise money down the road to ensure that the Fatala 1 well has full funding, including the 25 percent contingency built in. We also want to position ourselves to be able to move quickly for additional funding, should we wish to move to the second well Bamboo if Fatala's successful.

Now, in discussions with potential investors, especially institutional investors, three factors kept coming up: One, that we're not listed on a major exchange; Two, that our daily level of liquidity is low; and Three, we have a low stock price. Many funds have a \$3 or \$5 share minimum price for investing.

In order to uplift to the NASDAQ, among other things, we needed a stockholders' equity of at least \$5 million, and we need a minimum \$4 share price. Now, our stock price did reach as high as \$2 a share very recently, but there is clearly a question of whether it would reach the per-share level needed for uplifting in the short timeframe we're facing.

So, to be sure that we have the option to target a wider spectrum of investors through being listed on a high-level exchange, we're asking our shareholders to approve a reverse split to make us eligible to list on the NASDAQ exchange in the near future, to enable us to raise additional capital, appealing to a broader range of investors.

Now, to emphasize, this is only an option, which we do not intend to use unless it's necessary for our share price to reach the required level for an uplift. This past Friday, we filed a preliminary proxy statement with the SEC that fully describes the proposal and the reasons for the reverse split. We will not be holding a formal special shareholders' meeting, but we will seek your approval by submission of shareholder written consents.

As I pointed out many times, my goal as we've gone through the process of funding the next well was to try to retain as much value as possible for our shareholders, myself included. The upside potential of a world-class discovery is such that we have plenty of room to work with in looking after shareholder value.

It's very crucial to have a wide range of options to raise capital for this well and for the follow-up Bamboo prospect as well. By giving us the option of a reverse stock split if needed in uplifting to the NASDAQ, our equity would be more attractive to institutional investors as well as more attractive to you, our current shareholders. Making us more attractive to investors can make it possible to minimize dilution and maximize shareholder value in the project.

This brings you up to date on the status of the project. I want to conclude that the well is fully funded through mobilization, which will conclude around the end of the month. This well will get drilled, barring some unforeseen catastrophe or event.

We've gotten pretty good at overcoming major obstacles, and we see a clear path to spudding this high-potential prospect within the next 30 days. And it's my hope that the next time I speak with you, it will be to discuss the drilling results of the Fatala1.

Now, I'll try to answer as many questions as time allows, and there are a number of very good questions to get right to the heart of things that you're concerned with. I'll start with questions that were pre-submitted, and then we'll take a few questions from investors who are participating by phone.

Now, there were a number of questions with regard to the reverse split. And so, I've really lumped them in and tried to put together an answer that answers as many of them as possible. And the questions can be summarized in: *Why is the reverse split important to Hyperdynamics at this point in time?*

We need to be on a major exchange for liquidity purposes. The split is only necessary if our stock doesn't achieve \$4 on its own. And we need to be prepared if it doesn't.

Some investment funds can't invest in the OTC stocks. And other investment funds need a certain price to invest. And we're preparing for the success case in needing to raise capital for an appraisal program, again, we're being proactive and being prepared.

But, the most important point here is let's take a look at what happened the last time we did a reverse split. This decision was made at the end of May 2013. And we went to the shareholders, and a reverse split was approved. After this reverse split, the share price was steady for a few months and actually began to rise as we approached the drilling of the Fata1 well in early 2014.

The volume in absolute value actually increased. So, the reverse split did not result in a loss of value. The value stayed the same and then began to increase.

With Tullow's call for force majeure on a misguided claim of title worries, the price collapsed in early March 2014, and even though it partially recovered when they withdrew their force majeure claim in May, it suffered successive drops when Ebola struck in Guinea, shutting down the country. Then the oil price collapsed. And then when our share price dropped below \$1 and we were delisted from the New York exchange, it collapsed again.

Although it rose after the closure of the Department of Justice and SEC investigations, it dropped again when it became clear that Tullow and Donna would not drill the well. And we had to resort to legal means to try to force them to honor their contractual obligation.

So, a reverse split did not cause the share drop. Share price actually rose due to subsequent events after that. The collapse in the share price happened almost a year later, and it happened based on subsequent events that had nothing to do with it.

The next is a summary of a number of questions about value. *How does the company plan on retaining as much value out of this concession as it can?*

You know, very simply put, the value for the stock is going to be derived from a discovery. And this will drive the stock price. Now, I can't predict stock prices, but I can point out a few hard data points to take into account. The prospect is 650 million barrels of oil. We have a 50

percent interest, and Guinea does have an option to back in for 15 percent, once the discovery is commercial. So, that would reduce our interest to 42.5 percent.

Now, we have a clear value comparison at \$2.20 per barrel oil equivalent from the recent sale of ConocoPhillips' interest in the Senegal discovery. It's in a country with consistent fiscal terms to ours. It's a deepwater discovery with probably consistent development costs.

So, assuming a base case discovery, the value to us with our share would be about \$600 million. Now, that doesn't include additional value that would come from further discoveries that would be much lower risk, such as the Bamboo. So, that \$600 million could be a lot higher.

To retain the maximum value, we need to keep in mind two principles. We need to try to keep our interest at 50 percent through the drilling of the well, and we need to minimize the number of shares outstanding. Those two principles are the first thing I think about at the beginning of the day and the last thing I think about at the end when I take a look at what we're trying to do.

For an additional comparison, I'd like to remind you of events in the mirror basin to Guinea in Guyana in South America, where ExxonMobil is moving forward with the Lisa development. Analysts put a per-barrel value of about three times a Senegal discovery on that project. And Hess is actually selling a portion of their share of acreage, presumably to fund their 30 percent share of that project. So, the value could be a lot higher than \$2.20 based on the example in Guyana.

The next question: *Do you anticipate any more money raises by the time the drill hits the water?*

We want to raise enough money to be sure we retain a 50 percent interest through the drilling of the well. And so, we'll look at our cash balance, and we'll look at our expenses. And we'll make sure we do whatever we have to do to keep that 50 percent interest in.

How would the reverse split affect the participants in the recent equity and preferred convertible raises?

If the reverse split occurs--the percentage discount to share prices will stay the same. However, the historical record of the shares will be changed so that the number of shares and the warrant strike price will be altered accordingly. So, the value of the offerings will remain the same.

What is the line in the sand for funding?

We don't have firm dates. We just need to respond to events, to costs and balances.

I've included one of the questions about the reverse split just sort of as an example of I think some of the thinking that I don't agree with. The question is: *I have a fear of the follow scenario. Hyperdynamics has a reverse split of four to one, which will raise our share price to \$7, and then shortly thereafter, Hyperdynamics announces the issuance of 10 million shares in*

order to raise \$30 million. Hence, all investors will lose 50 percent of their equity. Can you comment on this scenario?

First of all, that assumes a 50 percent drop in share price after the reverse split. There's no basis for that. And if you look historically, that didn't happen. As a matter of fact, as it became closer to drilling the well, the share price went up after reverse split.

The other thing is we're not going to need \$30 million to drill this well. If there's a need for some money to make sure that we save 50 percent interest, it'll be a small fraction of that amount. And when we do need a larger amount, it will be post discovery, in which the share price will be a lot higher, and the dilution will be a lot lower. So, do not fear that scenario. I do not see a situation in which it could possibly occur.

Can you provide the details of the current share count, including the potential effects of warrants and stock options?

We currently have 26.8 million shares outstanding and 31.2 million if all the warrants and options would be exercised.

Now, I'd like to shift to questions that concern the Fatala prospect and drilling plan. *What percent of the concession does the company plan to own--plan on owning when drilling results are known?*

We plan to have 50 percent share. And if we're fully funded through the drilling of the well, we will continue to have 50 percent. That's our plan.

When do you anticipate finding out the results of Fatala?

The well should reach the target zone by the end of August. So, the results should be known soon thereafter.

Are two wells still a possibility?

Yes, although it will depend on a favorable result from the Fatala well.

Please tell us what happens in the best-case scenario after we drill the Fatala1 well, including projected timelines.

With encouraging results from the Fatala well, we would plan to continue the drilling campaign, which would involve raising additional funds, although presumably at a much more favorable price basis.

Based on seismic analysis, do you have any specific expectations regarding the thickness of the target sands that you'll penetrate at Fatala? At the Fatala 1 location, what's the expected thickness that's consistent with the mean resources?

The target interval that we see on the seismic is pretty consistent between the CGG process data and the eSeis reprocess data. The interval is 90 to 95 meters thick. The biggest uncertainty is the percentage of sand within that unit. In our base case, we're assuming 55 percent of that unit is sand. Now, if it's 100 percent sand, the resource estimate is increased accordingly. But, 55 percent of that 90- to 95-meter thick interval is assumed in our calculation in our base case to be sand.

If the Fatala well encounters hydrocarbons, is a separate appraisal well the most likely step?

No, the next well will be an exploration well. We'll need time to incorporate the results of this discovery to plan on an appraisal process. And also, we'll want to be able to look at the total potential of the block as quickly as possible. And it really is premature to estimate how much that appraisal well will cost. A lot depends on whether it's a single zone or multiple zones with hydrocarbons, whether it's normally pressured or overpressured, what we think the potential flow rate will be. A lot of things go into costing an appraisal well. And we just don't have those attributes to be able to make that appraisal yet.

Next question: If hydrocarbons are encountered at Fatala 1, could you run a drill stem test using Fatala 1 well to assess the resources, and is that a likely test?

We will not have the capacity to do a drill stem test on the Fatala 1 initial exploration well. We will have a robust evaluation plan for the well, but it will not cover a drill stem test.

Drill stem test equipment is extremely expensive. You don't put it on a well unless you're really reasonably certain that you are going to have a test on that well. However, we probably will preserve the well down to the 13 and three-eighths inch casing to be able to reenter it for a drill stem test during the appraisal period.

Thank you very much for your attention, for your loyalty and steadfast backing of Hyperdynamics. We are entering probably the most exciting two months in the company's history. So, keep tuned for events, and it is my fondest hope that, the next time we talk, I will be describing the results of the Fatala 1 well. Thank you very much.

Operator:

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.