



## Corporate and social responsibility ('CSR') review

### CSR targets and achievements

JXJ's strategy for 2015 has been to continue to improve its existing systems for managing its HSECC aims and objectives.

Targets 2015	Achievements 2015	Targets 2016
Keep our AIFR to 0.40 or below Continue to beat the performance benchmark set by the International Association of Oil and Gas Producers (IOGP)	JXJ achieved an AIFR of 0.15 (2014: 0.99) per 200,000 hours worked. JXJ achieved 0.75 injuries per million hours worked in 2015 (2014: 4.95), the 2015 IOGP performance benchmark was 1.6 per million hours for 2015.	Keep our AIFR to 0.35 or below and exceed the IOGP performance benchmark
LTI of 0.25 or lower per 200,000 hours worked	<b>Achieved</b> Zero LTI per 200,000 hours worked	LTI of 0.35 or below
EIFR of 0.70 per 200,000 hours worked	<b>Exceeded target</b> EIFR of 0.30 achieved	EIFR at 0.60 or below
Maintain ISO 9001 accreditation	<b>Achieved</b>	Maintain ISO 9001 accreditation
Maintain ISO 14001 accreditation for JXJ Oil & Gas plc	<b>Achieved</b>	Maintain ISO 14001 accreditation
Maintain OHSAS 18001 accreditation for JXJ Oil & Gas plc	<b>Achieved</b>	Maintain OHSAS 18001 accreditation
Complete OHSAS 18001 accreditation for PPC	<b>Achieved</b>	Maintain OHSAS 18001 accreditation for PPC
ISO 9001 accreditation for PPC	<b>Achieved</b>	Evaluate assessors recommendations and apply to the PPC Management System
Continue to improve our Stakeholder engagement and Community Liaison Plan	Progress made, improving levels of communication with local stakeholders, their interests forming part of the decision-making process for all our significant operations.	Continue to update and improve our Stakeholder engagement and Community Liaison Plan in all locations
Continue to improve local engagement in our Group Risk Management Systems and reporting into our Group Risk Register	<b>Achieved</b> Risk management strategy was updated and local Risk Committees continued to operate in Ukraine and Russia supported by staff training in risk identification and mitigation.	Improve our Risk Management and Assessment activities across the Group
Continue to improve incident reporting, using safety moments, workshops, site campaigns, training sessions, toolbox talks and briefings	<b>Achieved</b> 56 incidents were reported in 2015 (2014: 47) which included near-miss reports, unsafe acts and hazards.	Continue to improve incident reporting, using safety moments, workshops, site campaigns, training sessions, toolbox talks and briefings

### Targets 2015

Further improve Emergency Response ('ER') arrangements and plans with simulated exercises, drills and training in each of our operational areas

**Achieved**  
During 2015 JXJ improved ER in Ukraine and Russia and continued with regular ER drills and observations of the process. Plans have been established which include rescue of personnel and actions to minimise damage and business disruption.

### Achievements 2015

Ensure the next assessment of our Carbon Management Submission by the Carbon Disclosure Project is submitted in Q3 2016.

**Targets 2016**  
Further improve ER arrangements and plans with simulated exercises, drills and training in each of our operational areas during 2016

Update the Carbon Management Plan and reports

Comply with the Greenhouse Gas ('GHG') Emissions (Directors' Reports) Regulations 2015

The performance report is included in this Annual Report with improvements planned for 2016

Carry out a Management Training Needs Analysis

Identify current competencies within the JXJ Senior Management Team including Directors and propose a program of Continuing Professional Development including Corporate Governance and Environmental matters. With the change in the JXJ Board on 28 January 2016, the management training plans being revised for 2016.

The baseline measurement is included in this Annual Report with improvements planned for 2016

Revise current arrangements with improvements planned for 2016

## Corporate and social responsibility ('CSR') review

### Health and safety

#### Our approach

JXX's Health, Safety, Environment, Community and Quality ('HSECO') philosophies are embodied in its Policy Statements, which are endorsed by the Board and made known to all employees and business partners. The statements represent the Company's commitment to a safe and healthy, incident free, working environment and its responsibility to prevent damage to the environment, our employees and neighbours.

JXX will never knowingly compromise its health, safety, environmental or quality standards to meet operational objectives.

#### Health and safety statistics

In 2015, JXX implemented and communicated its improved HSECO policy at all operations worldwide.

This policy represents a clear statement of core principles and the approach to health and safety management at all Group companies.

The priority is to ensure that all staff and contractors work in a safe environment, where effective systems of work are maintained and appropriate procedures and processes are followed.

#### Continuous improvement in health and safety

Annual HSECO targets are set for all levels within the organisation. During 2015 JXX achieved an AIFR of 0.15 per 200,000 hours worked with 165 days away from work recorded. This equates to an AIFR of 0.75 per million hours worked.

The industry benchmark set by the IOGP was an AIFR of 1.6 per million hours worked. The reporting of incidents during 2015 continued, demonstrating that all statistics are reported whether good or bad.

With more than 750 personnel during 2015 JXX reported 56 incidents.

#### Our safety statistics for 2015

Measurement and analysis of JXX's safety statistics is carried out on a monthly basis with the results communicated to senior management of all group companies and the Board.

There were no recorded lost time injuries (2014: 6). This year JXX sadly suffered a fatality during mud mixing operations. A Root Cause Analysis was carried out for this incident with the lessons learned distributed across the Group to ensure no such incident occurs again.

Employees are included in structured training and behavioural programs which promote open discussion and employee surveys are conducted annually. JXX has a clear Safety Management System, which provides a comprehensive and systematic vision of its objectives.

Each site has its own HSECO Management System identifying all major hazards and risks to personnel specific to the unique nature of the country of operation.

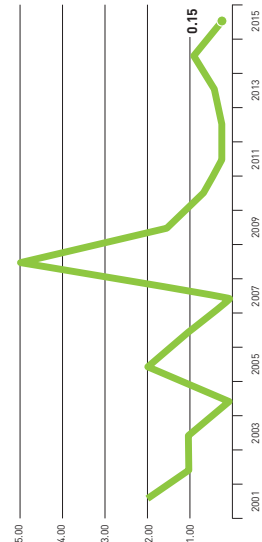
In occupational health, the drug and alcohol policy continues to be successful throughout the Group with no instances of breaches noted. The policy applies to all JXX staff and contractors and forbids the possession and/or use of defined prohibited substances which includes drugs and alcohol. The policy also clarifies testing and inspection procedures.

#### Drilling risks

JXX recognises that the safety and efficiency of drilling and workover operations depends primarily on the performance of its employees and contractors. Local staff with decades of local experience are used on our drilling rigs who are

## 1 Continuous improvement in health and safety

All Injury/Frequency Rate ('AIFR') 2015



## 2 Our safety statistics for 2015

HSECO statistical analysis for 2015



supported by expatriate supervisors to provide additional expertise and oversight. This enables us to define and manage risk more clearly using Western methodologies.

JXX drilling and workover employees and contractors have the necessary training and certification in well safety and well control, and all personnel have the authority to stop any job that they deem unsafe.

Supervisors are selected for their expertise as well as for their familiarity with the regions where JXX operates. They understand and are sensitive to local working practices and culture, and work to enhance the education and training of local staff and contractors alike.

JXX makes the best use of its resources by sharing expertise between operating companies using a strong collaborative environment where everybody contributes to analyse the risks and develop mitigating strategies in order to minimise it.

A Lead Drilling and Workover Engineer is based at the London office who reports directly to the Board and is responsible for the planning, reviewing and authorising of Group drilling and workover operations; this significantly strengthens the capability to identify and manage drilling risk. A daily drilling update is provided to the Board for all JXX operations which describes drilling progress, issues and expectations for the following 24 hours.

#### Health and safety risk management

JXX is proud to have maintained accreditations for compliance with:

- OHSAS 18001 Health & Safety
- ISO 14001 Environmental and
- ISO 9001 Quality Management.

These are internationally-recognised specifications for occupational health and safety environmental and quality management systems monitored by experienced auditors bi-annually to ensure compliance to the standards. The list below is a sample of 3rd party inspection activities in 2015. A full report of all inspections is available on request.

#### 3rd Party Inspections during 2015

##### PPC, Ukraine

- Main Board of the State Emergency Situation Service of Ukraine in Poltava region
- Expert organization NVF Promservisdiagnostika
- Expert organization PP Energomash
- State Labour Board, Poltava region
- Office of the Federal Service for Ecological, Technological and Atomic Supervision (Rostekhnadzor)
- Association of independent experts of Ukraine Ukrexpert
- Federal Service for the Supervision of Natural Resources

##### YGE, Russia

- North Caucasus Office of the Federal Service for Ecological, Technological and Atomic Supervision (Rostekhnadzor)
- State Labour Inspectorate in Adygea Republic
- Federal Service for the Supervision of Natural Resources in Krasnodar Region
- Federal Agency on Technical Regulating and Metrology, Southern Interregional Territorial Office
- Head Office of the Ministry of the Russian Federation for Civil Defence, Emergency Situation and Mitigation of Natural Disaster Consequences in Adygea Republic

# JKX Oil & Gas plc



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For full governance and financial statements refer to the document above (enclosed with this report) and also available online: [www.jkx.co.uk](http://www.jkx.co.uk)

## New FDP targets 600 billion cubic feet

- Updated field development plans focus on the Rudenkivske field in Poltava
- Technically recoverable reserves of 600 billion cubic feet (17 billion cubic metres)
- Plateau production of 18,300 boepd P9



**MINDSET**

### "What's possible?" unleashes latent talent

Tom updates the philosophy of the new JKX and sets the mindset. P8

**PRODUCTION**

### Technological revolution

The past 10 years sees tight oil plays production increase by 15 times. P5

**POLITICS**

### 29% gas tax rate blocks progress

12% would open the gas market to global energy investors and operators. P5

**LEGAL**

### Tribunal award

An opportunity to resolve historical legal issues. P2

**STRATEGY**

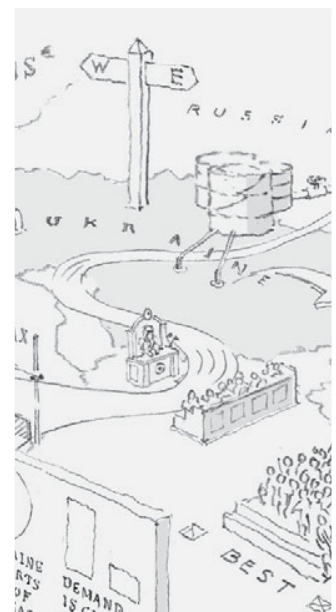
### All seeing the same picture

Extreme transparency, the way forward. P14

**TARGETS**

### 135 wells and total investment of \$660 million

JKX will bring the capital and technology to start our own gas revolution, but Ukraine also needs to do its part. P9



enquiry and believe that PPC is in full legal compliance with all relevant Ukrainian law and regulation. These searches have been a significant distraction for the Board and JKX staff, and damaging to Ukraine's investment climate. We have engaged with both the US and UK embassies in Kiev in order to register our complaints in this matter.

We have commenced the settlement process with the Government in Ukraine to settle the arbitration award and the local tax issues so that the Company can return its focus to key operational matters.

#### UKRAINE

### Production licenses secured

In January 2016, the State Geology and Mineral Resources Survey of Ukraine suspended four of PPC's subsoil use permits. The authority gave a list of actions that were required in order to cancel the suspension (including a change to the minimum production requirements under the licenses) and would normally have given the operator sufficient time to remedy the failings. Instead PPC was given only one month to do so.

Following successful legal action, PPC has now renewed all four of these licenses until 2024 and also received a ruling from the Kharkiv Administration Court of Appeal which deemed the original suspensions to have been illegal.

### Rebuilding of Field Development Plans ('FDPs')

Our reconstructed Field Development Plans have revealed that applying modern technology and techniques in well construction and field development design, our Rudenkivske gas field has much greater potential than was previously considered

economic. Further details of the FDPs are provided in The Chief Executive's statement on pages 8 to 10.

#### FINANCIAL

### Bond repayment and restructuring

Through 2016, we reduced the principal amount of outstanding bonds from \$36 million to \$16 million. This was achieved through a \$10 million scheduled repayment in February and various market purchases of bonds of a total principal amount \$10 million at various discounts to face value.

On January 3 2017 the Bondholders approved a restructuring of the remaining \$16 million of Bonds, the detail of which is provided in the Financial Review on pages 19 to 21. The repayment of the Bonds is now well within the operating cash flow capabilities of the Company enabling the business to move forward with its development plans.

### Reducing operating costs and overheads

Measures were taken immediately following the appointment of the new Board in January 2016 to significantly reduce the cost burden of the Company's London headquarters, reducing headcount and moving all remaining staff onto one floor of the building, where we previously occupied four floors. We have been able to extract ourselves from the long-term lease on one of the unoccupied floors and continue negotiations with the landlord to extract the Company from the long-term lease agreements on the other two floors.

During 2016, headcount reductions have been made in Ukraine and Russia of 18% and 14%, respectively. The benefits of our cost reduction actions during 2016 will be seen in 2017 and we continue to identify further cost-saving opportunities.

#### GROUP

### Your Board

Following the replacement of the entire Board on 28 January 2016, the composition of the Board did not comply with the UK Corporate Governance Code in respect of the number of independent Non Executive Directors. To address this, in April, two new independent Non Executive Directors were appointed.

Alan Bigman and Bernie Sucher both bring extensive knowledge of working at the highest levels in the region combined with directly relevant experience which will be of great benefit to the Company. As independent directors, Alan and Bernie have strengthened the corporate governance credentials of the Company which ensures that the interests of all shareholders are protected.

At the Company's AGM on 28 June 2016, the resolutions to accept the appointment of Alan and Bernie were rejected by a small number of shareholders but with enough votes to prevent the resolutions being passed. Given the very low turnout of voting shareholders, the fact that the vast majority of voting shareholders were in favour of the appointments and the need for value-adding independent directors, the Board re-appointed both Alan and Bernie at a subsequent Board Meeting. The shareholders will be asked to approve these appointments at the next Annual General Meeting. The result of last year's AGM underlines that if shareholders want to ensure a high-quality board and good governance, they must exercise their right to vote at General Meetings.

#### MINDSET

### People

The Board continues to be impressed and often humbled by the level of dedication, talent, and perseverance shown by staff throughout the Group,

especially during a year in which we were trying to drive such significant change. We believe that our teams are capable of accomplishing market leadership in our field, and much more.

#### POTENTIAL

### The road ahead

We are working with the Ukrainian Government to amicably settle all claims and secure support in creating an environment in which JKX can execute its Field Development Plans, invest in gas production and assist Ukraine to achieve energy independence.

2016 began with some major changes at the board level, and uncertainty with regards to our future. Yet we endured that uncertainty, increased production, improved relationships with our stakeholders and have more focused teams with a clearer understanding of our organisational and technical challenges. We achieved some significant gains during 2016 but have also suffered some setbacks. With a renewed purpose, strategic focus and the right people in the right places, we enter 2017 with optimism.

Finally, I wish to thank all our shareholders and staff for their support of the Company and the new Board through this year of challenging transformation. We have achieved a significant amount in our first 12 months, but relish the challenges and opportunities that 2017 presents.



Paul Ostling  
Chairman

## STRATEGIC REPORT

## Regional operations update



A winters day at the Poltava production plant

## GROUP PRODUCTION

In 2016 Group average production was 10,083 boepd (2015: 8,996 boepd), comprising 54.7 MMcfd of gas (2015: 48.7 MMcfd) and 967 bpd of oil and condensate (2015: 871 bpd), an overall increase in production of 12%.

## UKRAINE

## Novomykolaivske licences

## Production

Average production from the Novomykolaivske group of fields in 2016 was 2,553 boepd (2015: 2,611 boepd) comprising 10.0 MMcfd of gas (2015: 10.9 MMcfd) and 879 bpd of oil and condensate (2015: 794 bpd). Despite the cancellation of all development expenditure since early 2015, oil production increased by 11% in 2016 while gas production decreased by 8%, although the decline in gas production has to be viewed in the context of a declining field and lack of an effective development plan in the first half of the year. We have implemented an enhancement program targeting the technical potential of existing well stock which has resulted in the increase in oil production and enabled a smaller reduction in gas production than would otherwise have been the case. The decline in gas is mainly attributed to a year on year natural decline of 1.5 MMcfd observed in the Ignativske field.

## Development and drilling

No drilling took place in 2016 as the new board focused on rebuilding Field Development Plans ('FDPs') using global best practices, including drilling, fracturing and completion techniques from North America. Several technical advisors with a broad range of global and regional expertise were engaged.

The FDP for Ukraine identifies a technical solution to potentially unlock approximately 600 billion cubic feet of recoverable gas reserves previously considered uneconomic at the Rudenkivske gas field in addition to significant enhanced oil recovery opportunities in existing fields.

Work commenced on the initial stages of the FDP, including the acquisition and preparation of existing wellbores for stimulation, and the re-start of water injection into Ignativske. Production optimisation operations continued with the TW-100 and the recently leased Cooper LTO-550 and ZJ-20 workover rigs and rigless interventions.

- As part of the re-start of the Ignativske pilot waterflood project in the first half of last year, re-pressurisation of IG138 occurred in July. This led to the opening of the well in August and production of 5.5 Mstb of oil in the following two months. An electrical submersible pump was sourced for IG110 which will enable injection to be increased to 10,000 bbls/d as part of the FDP.
- A cement plug over the T2 and Devonian Sands was drilled out in IG-132, which resulted in a significant increase in production. Initial rates were over 1,100 bbls/d and total incremental production was 96 Mstb of oil and 129 MMcf of gas.
- In the Movchanivske North Field M171 was worked over to deepen the gas lift, followed by M153 where additional perforations were also added. Both of these projects were as a result of the newly generated enhancement list and both added to oil production quickly and with minimal investment.
- Rigless interventions included velocity string installations in M155, M157, M159, M162, M167, and IG106. In addition, a plunger lift system was installed in M160. All of these installations increased gas and condensate production quickly and with minimal investment.
- Successful re-entry of two old leased wells, NN16 and NN47, was completed in the Rudenkivske field. NN16 recovered a total of 100 MMcf of gas and 1.9 Mstb of condensate from the Devonian horizon in the southern part of the field. At the year end, NN47 had recovered a total of 37 MMcf of gas and 1.7 Mstb of condensate from the Visean horizon in the Northern part of the field. The success of both of these projects was due to the use of modern perforating technologies.
- Work started on 19R to prepare the well for fracturing in 2017 as outlined in the FDP.
- Wireline operations have focussed on the clearance of wax and salt build up in the production tubing of a number of wells. A sustained programme of wax clearance has stabilised oil production.

## Production facilities

Operations at the main processing facility, the LPG plant and the oil loading facility continued smoothly throughout the year. A new water treatment vessel was installed at the main processing facility. Minor piping modifications continue to enhance production. A routine annual plant shutdown of 2 days for maintenance was successfully completed in September.

Improvements at the oil loading terminal included an upgrade of the fire protection system and the installation of an additional loading point to enable loading of road tankers in addition to rail cars.

## Elyzavetivske production licence

## Production

Average production from the Elyzavetivske field in 2016 was 1,448 boepd (2015: 1,715 boepd) comprising 8.6 MMcfd of gas (2015: 10.1 MMcfd) and 23 bpd of condensate (2015: 29 bpd), an overall 16% decrease in production.

## Development and drilling

There was no drilling activity on the Elyzavetivske field during the year although new field development plans on the Elyzavetivske field and West Mashivska licence were completed.

## Production facilities

The Elyzavetivske production facility continues to operate efficiently and there have been no further changes.

## RUSSIA

## Koshekhabskoye licence

## Production

Average production from the Koshekhabskoye field in 2016 was 6,082 boepd (2015: 4,670 boepd) comprising 36.1 MMcfd of gas (2015: 27.7 MMcfd) and 65 bpd (2015: 48 bpd) of condensate, a 30% increase on the average for 2015. This increase is due mainly to full year of production from well-27 which came back on line in late 2015.

## Licence obligations

The Group's Russian operating subsidiary Yuzhgazenergie ('YGE') maintains a regular dialogue with Rosnedra, the licencing authority, to ensure that the authorities are kept abreast with progress on the field development and the associated exploration and reserves determination commitments.

Rosnedra, is fully aware that there are certain licence commitments under YGE's Koshekhabskoye licence which have not been met and have issued YGE with notices to this effect. YGE is addressing these issues and expects to resolve them in 2017.

## Development and drilling

After completion of the well-27 workover at the end of 2015, there were no additional workover activities in 2016. Routine acid treatment has been carried out using coiled tubing on the main producing wells.

Production from well-20 has declined from 17.5 MMcfd to 14.1 MMcfd through the year without any additional acid stimulation. During a routine wireline operation in the middle of the year a fish was lost in the hole which has prevented further acid stimulation taking place, but despite this production has remained relatively stable.

The north flank well-25 has been producing gas at rates between 5.5-12.4 MMcfd with three acid treatments in the year. Well-27 has been producing gas at rates between 8.3-12.2 MMcfd on a monthly average basis, having required eight acid treatments through the year. The deep east-flank well-15 continues to produce approximately 0.6 MMcfd on a monthly average basis.

## Production facilities

There were no changes to the facilities in 2016. An unscheduled shutdown of the plant in May was prolonged in order to complete the annual maintenance which had originally been planned for later in the year.

## Reserves audit

A reserves audit was carried out by Degoyler and MacNaughton in 2016 which increased total

2P reserves for the field to 80.3 MMboe (2015: 66.1 MMboe). Proved reserves have been slightly reduced, due to higher resolution geological modeling showing slightly less drainage area. Probable reserve categories have increased due to the addition of reserves attributable to a new Callovian well, which is planned for 2018, and net pay maps revealing volumes previously not accounted for by material balance.

## HUNGARY

JKX now operates the following six new Mining Plots (production licences) in Hungary covering 200 sq km and which are 100% owned by Riverside Energy Kft, the Company's wholly-owned Hungarian subsidiary:

Hajdunanas IV	28 sq km
Hajdunanas V	7 sq km
Tiszavasvari IV	41 sq km
Emod V	100 sq km
Pely I	18 sq km
Jaszker II	6 sq km

The licence terms enable JKX to carry out appraisal and development activity over a 30 year period.

## Hajdunanas field

Production from the Hajdunanas and Gorbahaza Fields in north east Hungary, which form the Hajdunanas IV Mining Plot, was suspended by the previous operator in 2013.

In December, a sidetrack of the Hn-2 well was started to access the remaining Pannonian reservoir gas and to test the oil potential of the underlying Miocene volcanoclastic sequence, which was previously productive in the Hn-1 well. This was the first drilling operation completed since JKX assumed operatorship in November 2014.

The Hn-2ST well tested 1.5 MMcfd from the Pannonian Pegasus sands and 2.8 MMcfd from a lower Pannonian sand interval. The latter is a newly discovered productive horizon in the field.

Gas sales commenced on 2 February 2017 at an initial rate of 1.8 MMcfd, after a production and sales break of more than three years. Production forecasting and development planning is underway and future work may include a workover of the existing Hn-1 well to add production from the Lower Pannonian reservoir interval.

JKX continues to seek a farm-in partner to participate in the further development of the Hajdunanas field and the Group's other Hungarian licence interests.

## Turkeve IV Mining Plot

During the year, JKX sold its 50% beneficial interest in the Ny-7 discovery (within the Turkeve IV Mining Plot) to the operator.

## SLOVAKIA

## Exploration

JKX holds a 25% equity interest in the Svidnik, Medzilaborce, Snina and Pakostov exploration licences in the Carpathian fold belt in north east Slovakia. A programme of magneto-telluric geophysical surveys combined with seismic re-interpretation has led to the identification of a number of shallow prospects across the licences.

The 128 sq km Pakostov licence was applied for and approved in 2015 as protection acreage around material prospects identified in the Medzilaborce licence. The Operator (DiscoveryGeo) had planned to drill two of these prospects in 2016 but a combination of revised permitting procedures and local activist opposition has delayed well location permitting and construction. The Operator now hopes to spud the first well of a larger three well programme in 2017.

JKX OIL & GAS PLC ('JKX' OR THE 'COMPANY')

# Half-Yearly Results

For the six months ended 30 June 2017

## Highlights

- Executed Phase 1 of the appraisal program at Rudenkivske field and completed several enhancement projects in Ukraine
- Completed workover of well 25 in Russia
- Restarted production in Hungary after a break of more than 3 years
- Average production decreased by 17.3% at 8,598 boepd (2016: 10,393 boepd)
- Restructured and extended the short-term bond liabilities
- Commenced negotiations to resolve legal disputes with the Ukrainian Government
- Significant changes at the Board level following the Annual General Meeting

## Key Financials

- Revenue: \$38.0m (2016: \$35.4m)
- Other cost of sales: \$12.6m (2016: \$9.7m)
- Loss from operations before tax and exceptional costs \$2.2m (2016: \$2.8m loss)
- Exceptional costs \$3.1m (2016: \$3.1m)
- Loss for the period: \$7.7m (2016: \$10.1m loss)
- Loss per share: 4.46 cents (2016: loss 5.86 cents)
- Operating cash flow: \$4.0m (2016: \$7.8m)
- Capital expenditure: \$10.4m (2016: \$2.2m)
- Total cash balance: \$4.2m (31 December 2016: \$14.3m)

## Outlook

- Analysis of results of Phase 1 of Rudenkivske appraisal program and preparation for Phase 2 in Ukraine
- Progress of field development using best working and technical practices from North America adapted to Ukraine
- Successful completion of well 5 workover to increase gas production in Russia
- Workover of well Hn-1 in Hungary and search for farm-in partner
- Amicable settlement of the legal disputes with the Ukrainian Government
- Review of different options to raise external financing to enable execution of our strategy

Acting CEO, Victor Gladun commented:

"During the first half of the year, we have started implementing the Field Development Plans, completed Phase 1 of the appraisal program in the Rudenkivske field in Ukraine, completed well 25 workover in Russia and restructured the significant short-term bond liabilities.

On the Board level, continued disputes between major shareholders and the Board resulted in a change of the Executive Directors for the second time in 18 months. The Board is actively looking for new Executive and Non Executive Directors. I have taken on the role of Acting CEO to secure a smooth transition. Tom Reed acted as Advisor to the Board and Advisor to the Acting CEO and Russell Hoare served as Acting CFO from the date of the Annual General Meeting ("AGM") on 30 June 2017 until 31 July 2017 to help with the transition. Irrespective of changes in the management team, the Company will continue to seek to mitigate its litigation risks and potential liabilities with the Ukrainian Government, execute on Field Development Plans, and establish opportunities for long-term growth".

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## Financial performance

	First half 2017	Second half 2016	First half 2016
<b>Earnings</b>			
Net loss (\$m)	(7.7)	(27.0)	(10.1)
Net loss before exceptional items (\$m)	(5.0)	(0.5)	(7.0)
Basic weighted average number of shares in issue (m)	172	172	172
Loss per share before exceptional items (basic, cents)	(2.89)	(0.25)	(4.09)
Loss per share after exceptional items (basic, cents)	(4.46)	(15.70)	(5.86)
Pre-exceptional earnings before interest, corporation tax, depreciation and amortisation <sup>1</sup> (\$m)	8.3	7.4	8.4
<b>Realisations</b>			
Oil (per bbl)	\$57.45	\$49.65	\$39.92
Gas (per Mcf)	\$3.67	\$2.94	\$2.96
LPG (per tonne)	\$497.53	\$496	\$254
<b>Cost of production (\$/boe)</b>			
Production costs (excluding exceptional item)	\$7.84	\$5.33	\$5.43
Depreciation, depletion and amortisation	\$6.46	\$5.90	\$5.67
Production based taxes	\$5.76	\$5.21	\$4.57
<b>Cash flow</b>			
Cash generated from operations (\$m)	4.0	9.2	7.8
Operating cash flow per share (cents)	2.3	5.4	4.5
<b>Statement of Financial Position</b>			
Total cash <sup>2</sup> (\$m)	4.2	14.3	18.6
Borrowings (\$m)	16.3	16.8	23.8
Net debt <sup>3</sup> (\$m)	(12.1)	(2.5)	(5.2)
Net debt to equity (%)	(7.9)	(1.6)	(2.9)
Return on average capital employed <sup>4</sup> (%)	(9.3)	(11.0)	(11.4)
Additions to property, plant and equipment/intangible assets (\$m)			
- Ukraine	8.3	2.6	1.5
- Russia	1.7	(0.3)	0.6
- Other	0.4	1.2	0.1
Total	10.4	3.5	2.2

1. Pre-exceptional earnings before interest, tax, depreciation and amortisation ('EBITDA') is a non-IFRS measure and calculated using loss from operations of \$5.3m (2016: \$5.8m) and adding back depreciation, depletion and amortisation and exceptional items of \$13.6m (2016: \$14.2m). EBITDA is an indicator of the Group's ability to generate operating cash flow that can fund its working capital needs, service debt obligations and fund capital expenditures.

2. Total cash is Cash and cash equivalents plus Restricted Cash.

3. Net cash/(debt) is Total cash less Borrowings (excluding derivatives).

4. Return on average capital employed is the annualised loss for the period divided by average capital employed.



## Financial review

<b>Realisations</b>	2017	2016	Change	% Change
<b>Ukraine</b>				
Gas (\$/Mcf)	6.57	5.77	0.80	13.9
Oil (\$/bbl)	57.45	39.92	17.53	43.9
LPG (\$/tonne)	497.53	254.70	242.83	95.3
<b>Russia</b>				
Gas (\$/Mcf)	1.66	1.50	0.16	10.7
<b>Hungary</b>				
Gas (\$/Mcf)	6.06	-	6.06	100
<b>Group</b>				
Gas (\$/Mcf)	3.67	2.94	0.73	24.8
Oil (\$/bbl)	57.45	39.92	17.53	43.9
LPG (\$/tonne)	497.53	254.70	242.83	95.3
<b>Average exchange rates</b>				
Russia (RUB/\$)	57.84	70.23	12.39	17.6
Ukraine (UAH/\$)	26.78	25.65	(1.13)	(4.4)
<b>Ukrainian revenues</b>				
	2017 \$m	2016 \$m	Change \$m	% Change
Gas	20.0	18.4	1.6	8.7
Oil	6.7	5.9	0.8	13.6
Liquefied Petroleum Gas ('LPG')	2.2	1.3	0.9	69.2
Total	28.9	25.6	3.3	12.9

### Ukraine revenues

As the revenue bridge chart demonstrates, one factor affecting revenues from our Ukrainian business was the decreased production due to the suspension of enhancement activity in Ukraine in 2017 due to planning and preparation for the stimulation programme on the Rudenivske field. Gas sales volumes in Ukraine were 7.6% lower at 3,453 boepd (2016: 3,737 boepd) as a result of reduced gas production to 3,766 boepd (2016: 4,114 boepd).

Whilst the realised gas price increased by 16% from an average of 5,208 UAH per Mcm in 2016 to 6,052 UAH per Mcm in 2017, US Dollar gas realisations in Ukraine improved only by 13.9% from \$5.77/Mcf to \$6.57/Mcf due to the 4.4% devaluation of the Hryvnia. Since the introduction of a new law affecting the Ukrainian gas market in 2015, gas prices are more closely following global market trends. The increase in gas realisations is explained by higher prices of imported gas from Europe compared to 2016.

Oil realisations also improved from \$39.92/bbl in 2016 to \$57.45/bbl in 2017 which is in line with Brent movement from an average of \$41.21/bbl during the 1H 2016 to \$52.28/bbl during the 1H 2017. Ukrainian realisations are now higher than Brent, with an average premium of \$5/bbl in 2017, due to the removal of illegal cheap products from the Ukrainian market and robust local demand for oil exceeding local supply.

LPG sales were affected by both volume declines, associated with a reduced volume of gas produced, and an improvement in the market price achievable in Ukraine. The average price increased to \$497.53/tonne (2016: \$254.70/tonne) due to tight controls over customs clearance imposed by certain market players which resulted in a limited access of cheaper LPG products. However, the strong operational performance of the LPG plant enabled it to contribute \$2.2m (2016: \$1.3m) to Group revenue.

### Russia revenues

Russian gas sales made up 54% of the Group's volumes sold (2016: 56%). Gas production in Russia was lower by 25% to 4,654 boepd (2016: 6,222 boepd) largely due to the workover of well 25 in Russia and as the revenue bridge chart shows, this was the largest negative factor affecting Group revenues in the period.



# Regal Petroleum plc

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## OPERATIONS REVIEW

### STRATEGIC REPORT

#### Health, Safety, Environment and Security (“HSES”)

The Group is committed to maintaining the highest HSES standards and the effective management of these areas is an intrinsic element of the overall business ethos. Through strict enforcement of the Group’s HSES Management System, together with regular management meetings, training and the appointment of dedicated safety professionals, the Group strives to ensure that the impact of its business activities on its staff, contractors and the environment is as low as is reasonably practicable. The Group reports safety and environmental performance in accordance with industry practice and guidelines.

#### Ukraine Operations

##### Asset Overview

Regal Petroleum Corporation Limited (a wholly owned subsidiary in the Group) holds a 100% working interest and is the operator of the MEX-GOL and SV fields. The licences are the Group’s sole project and extend over a combined area of 269 km<sup>2</sup>, approximately 200 km east of Kiev. The two licences are adjacent and the interests are operated and managed as one field. The licences were granted in July 2004 and have a duration of 20 years.

The fields are located, geologically, towards the middle of the Dnieper-Donets sedimentary basin which extends across the majority of north-east Ukraine. The vast majority of Ukrainian gas and condensate production comes from this basin. The reservoir comprises a series of gently dipping Carboniferous sandstones of Visian age (“B-Sands”) inter-bedded with shales that form stratigraphic traps at around 4,700 metres below the surface, with a gross thickness between 800 metres and 1,000 metres. Analysis suggests that these deposits range from fluvial to deltaic in origin. Below these reservoirs is a thick sequence of shale above deeper, similar, sandstones which are encountered at a depth of around 5,800 metres. These sands are of Tournasian age (“T-Sands”). Deeper sandstones of Devonian age (“D-Sands”) have also been penetrated in the fields.

##### Production

The Group’s average production from the MEX-GOL and SV fields over the year ended 31 December 2015 was 144,783 m<sup>3</sup>/d of gas, 44 m<sup>3</sup>/d of condensate and 21 m<sup>3</sup>/d of LPG, which equates to a combined total oil equivalent of 1,274 boepd (2014: 152,744 m<sup>3</sup>/d of gas, 52 m<sup>3</sup>/d of condensate and 21 m<sup>3</sup>/d of LPG (1,370 boepd in aggregate).

Production was boosted by the commencement of production from the SV-6 well at the end of November 2015, with average gas, condensate and LPG production for December 2015 at 191,098 m<sup>3</sup>/d of gas, 46 m<sup>3</sup>/d of condensate and 21 m<sup>3</sup>/d of LPG (1,574 boepd in aggregate).

The Group’s average production for the period from 1 January 2016 to 30 May 2016 was 169,649 m<sup>3</sup>/d of gas, 42 m<sup>3</sup>/d of condensate and 20 m<sup>3</sup>/d of LPG, which equates to a combined total oil equivalent of 1,406 boepd.

Since the Group commenced the treatment of “wet” gas from the adjacent Lutsenky field at the beginning of July 2015, the Group has purchased 4,723,010 m<sup>3</sup> of “wet” gas and following treatment of this gas, produced 2,945,021 m<sup>3</sup> of gas, 778 m<sup>3</sup> of condensate and 5,957 m<sup>3</sup> of LPG (49,473 boe in aggregate).

##### Operations

The geopolitical upheaval, the volatility in the gas price, the devaluation of the Ukrainian Hryvnia, and the fiscal and economic uncertainty in Ukraine during 2015, meant that the Group considered it necessary to reduce its planned capital investment programme.

The revised programme during the year was limited to installation of the Lutsenky “wet” gas treatment infrastructure, undertaking workover operations on the SV-6 well, improvements to the Group’s gas processing facilities and pipeline network, and performing remedial work on existing wells.

The Lutsenky “wet” gas treatment project arose from an agreement with Pryodni Resursy, the operator of the adjacent Lutsenky field, under which the Group has agreed to purchase “wet” gas and treat it through the Group’s gas processing facilities to strip out and sell the liquids. This has not only created an additional revenue stream for the Group, but also improved environmental emissions from the Lutsenky field.

The workover of the SV-6 well was undertaken after the Group entered into an agreement with NJSC Nadra, the State-owned gas producer, for the lease of the SV-6 well, which is a suspended well owned by NJSC Nadra, located within the Group’s SV licence area. Successful workover operations were performed during the year, and the well was brought onto production at the end of November 2015.



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## Operations

The geopolitical situation, the volatility in the gas price, the weakness of the Ukrainian Hryvnia, and the fiscal and economic uncertainty in Ukraine over recent years, meant that the Group considered it necessary to reduce its capital investment programme at the MEX-GOL and SV fields during 2016. The programme during the year was limited to the commencement of the drilling of the MEX-109 well, improvements to the Group's gas processing facilities and pipeline network, and performing remedial work on existing wells.

However, during the year, the Group engaged P.D.F. Limited to undertake a comprehensive review and re-evaluation study of the geology, geophysics, petroleum engineering and well performance at the MEX-GOL and SV fields. The results of the study are now being utilised in the planning of the further development of the fields, both in relation to an improved understanding of the geological aspects of the fields and reservoir engineering, drilling and completion techniques. Reprocessing of existing seismic data, using the latest processing technology, is being undertaken to try to improve the definition in such data, and thereafter further interpretation work is planned.

The MEX-109 well was spudded at the end of July 2016, targeting the Viséan reservoirs ("B-Sands") in the MEX-GOL field. The well has been drilled to a depth of 4,873 metres, which is shallower than its original target depth of 5,250 metres following some technical issues during the drilling operations. As a result, it was decided to curtail the well at this depth as access to the main reservoir target had been achieved. The well may be deepened later to access deeper horizons. Completion operations are scheduled to be concluded in May 2017, after which well testing will commence, and subject to successful testing, it is hoped that the well will be hooked-up for production by the end of the second quarter of 2017.

## Reserves

### ■ MEX-GOL and SV fields

The Group's estimates of the remaining Reserves and Resources at the MEX-GOL and SV licence areas are derived from an assessment undertaken by independent petroleum consultants, ERC Equipoise Limited ("ERCE"), as at 31 December 2013 (the "ERCE Report"), which was announced on 25 March 2014. During the period from 1 January 2014 to 31 December 2016, the Group has produced 1.45 MMBoe from these fields.