
License Management: an enabler to foreign investment

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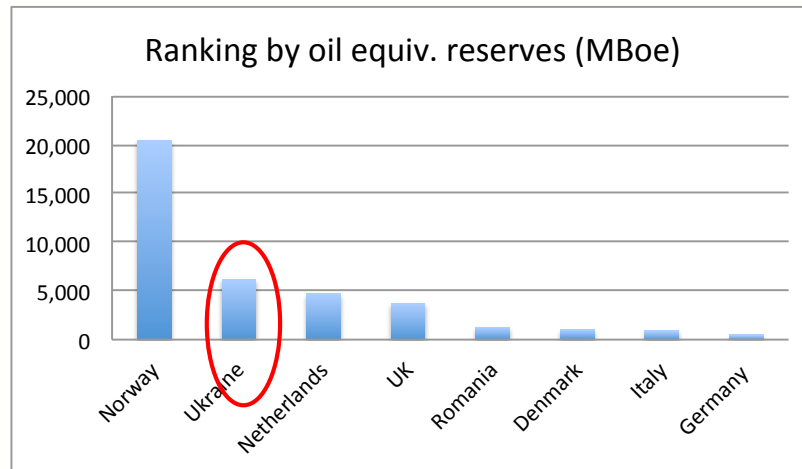
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The opinions expressed in this presentation reflect the speaker's view which is based on his experience in the e&p domain.

Ukraine: an anomaly in the european oil & gas sector



- ❑ 2nd largest country by reserves, but ...
- ❑ no active major²
- ❑ only two³ “truly” foreign companies active in the conventional upstream

¹ Source: World Oil & Gas Review 2016

² Shale gas excluded

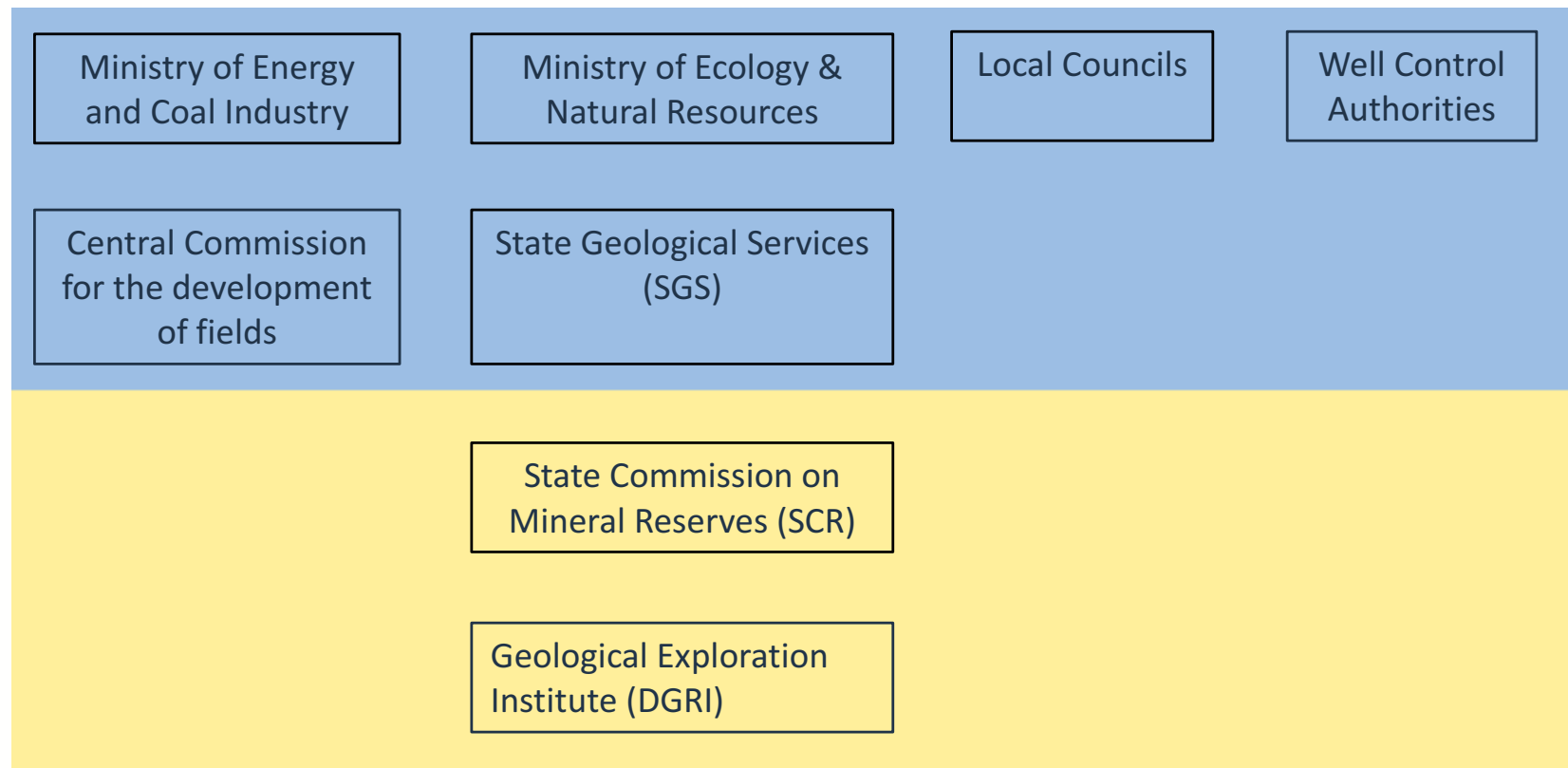
³ Arawak and Cadogan

Why is foreign investment down to a trickle ?

- ❑ Political and economic difficulties are not the primary reason which limits direct foreign investment in the oil & gas industry
 - ❑ Industry specific issues are more important. Does Ukraine offer ?
 - Unrestricted access to information on resource potential
 - Transparency in the award mechanisms
 - Taxation of profits rather than of revenues (or production)
 - Regulatory and economic stability (PSA)
- Clear and predictable licence management processes

The players in the “as is” system to award and manage licences

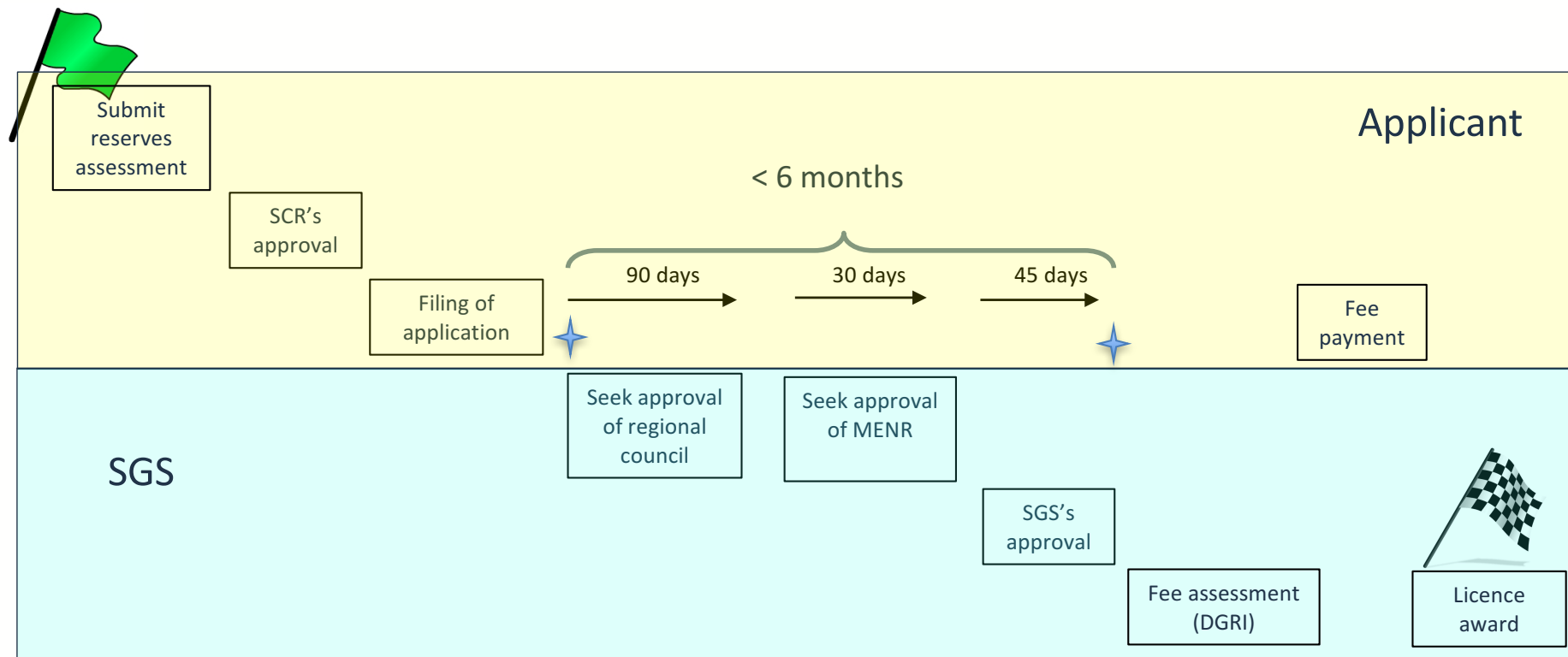
- ❑ Normal number of players
- ❑ Potential overlap between two Ministries



The "as is" award process

Conversion of exploration into production licence

- ❑ Straightforward on paper with a clearly defined timeline
- ❑ Local authorities' endorsement, but limited benefits for them



The real “as is” award process: a snake and ladder game

A case history

Conversion of Zagoryanska from exploration to production license



Back to square 4:
didn't follow the
“right” process 🤔

The “as is” process: a snake and ladder game

A case history

Conversion of Zagoryanska from exploration to production license



Back to square 7:
CMU order # 615 redistributes
approval powers between
authorities 🤔

The “as is” process: a snake and ladder game

A case history

Conversion of Zagoryanska from exploration to production license



Back to square 9:
royalties distribution are
being agreed 🤝

The “as is” process: a snake and ladder game

A case history

Conversion of Zagoryanska from exploration to production license



Back to square 1:
Resubmit reserves as their
3 years validity has now
expired 😡 😡

- ❑ Nearly \$ 80 million spent in exploration
- ❑ 30 Mm³ of gas and 7 Mton of condensate produced, and.....
- ❑ ...still no production licence 3 years after filing the application

Cadogan is not an exception: no licences awarded in Poltava council since January 2016

The “to be” award process

First and foremost must resolve the current stand-off and then will:

- ❑ Be stable (CMU Order 615 already amended 3 times since it was declared in December 2015)
- ❑ Contain a mechanism to resolve disputes between Central and Local Authorities in a given time frame
- ❑ Assign to applicants rather than SGS the onus of securing approvals (as it was until December 2015)
- ❑ Treat approval of reserves (SCR Protocol) as a key award element rather than as the entry ticket into the process.
- ❑ Re-instate in CMU 615 the right to be awarded production licences for applicants owing the infrastructure (right removed in January 2016)

Replacing license regime with PSA will address many of the issues

Other desirable improvements to license management

License transfer

- ❑ Resume and simplify licence transfer mechanism
- ❑ Allow multiple ownership of licences (as for PSA)

Audit and inspection

- ❑ Redesign the audit system around protection of country's interest and people's well being
- ❑ From prescriptive and punitive to proactive and improvement oriented
 - Geo-monitoring removed by SGS in 2015 as licence obligation, but
.....its lack treated as a breach of work program by inspectors in 2016.
 - 30 days to remedy alleged breaches are an unreasonable time

Summary

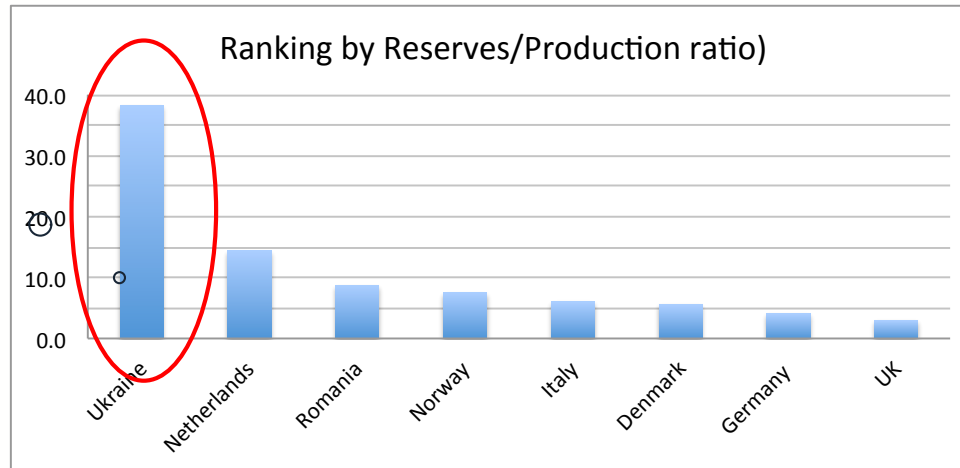
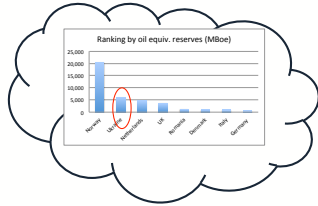
- ❑ Ukraine has made steps in the direction of modernizing its e&p legislative framework
 - PSA introduction
 - Reduction of subsoil rate
 - Increased use of auctions
 - Part of subsoil rent transferred to local authorities (from 2018)

- ❑ Improvements still needed in license management
 - Predictable outcome and timing of approval process
 - License transfer and multiple ownership
 - Scope and due process of audit and inspections

- ❑ A modern and transparent system will attract much needed foreign investments with a boost to the economy and energy independence

- ❑ Initiatives towards unbundling and set up of trading platforms have proved the benefits of increased transparency and modernization

Conclusions



Potential reward is high. Should reassured foreign investors bring enough capital to take R/P down at least to the level of the second in Europe then

- Annual gas production would be 40 Bm³ higher than what it is today
- And this would generate up to 10 B\$ of additional annual revenues²

¹ Presenter's elaboration of data from World Oil & Gas Review 2016

² At current prices



Thank you
Your questions, please