Why the majority of independent natural resources companies operating in former Eastern Europe and CIS have struggled to meet market expectations

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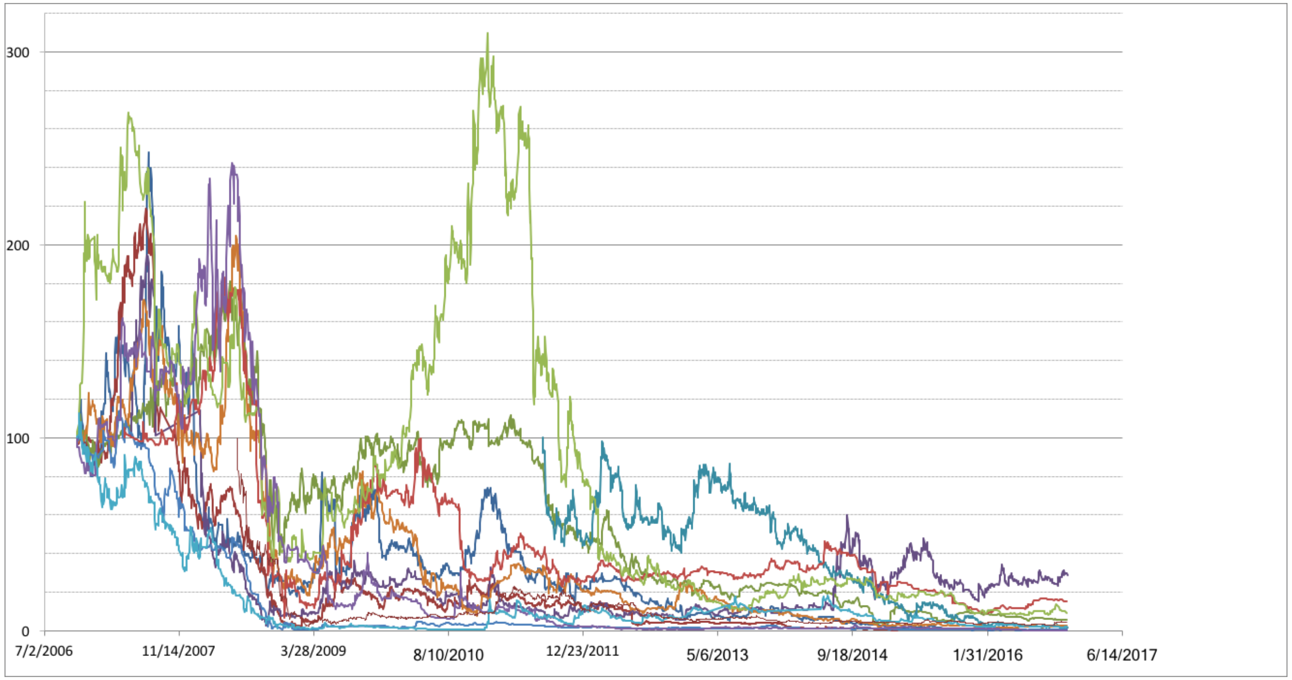
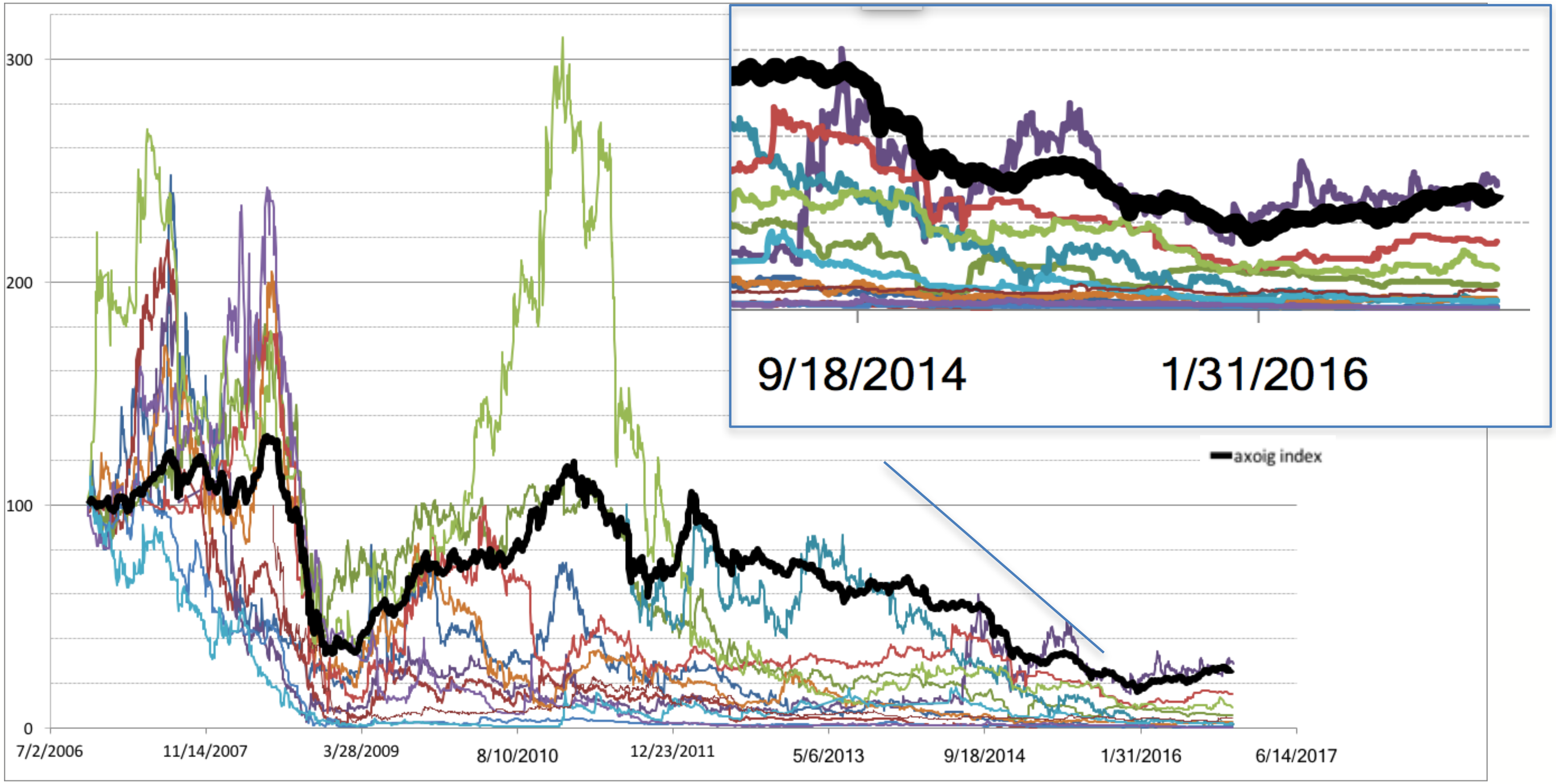
UK listed companies active in the former East Europe & CIS

A tale of disappointment across nearly the entire field



- Less than 20 % of the IPO value preserved
- Geography had limited impact
- Largely underperformed the benchmark (AIM oil & gas index)

Benchmark performance



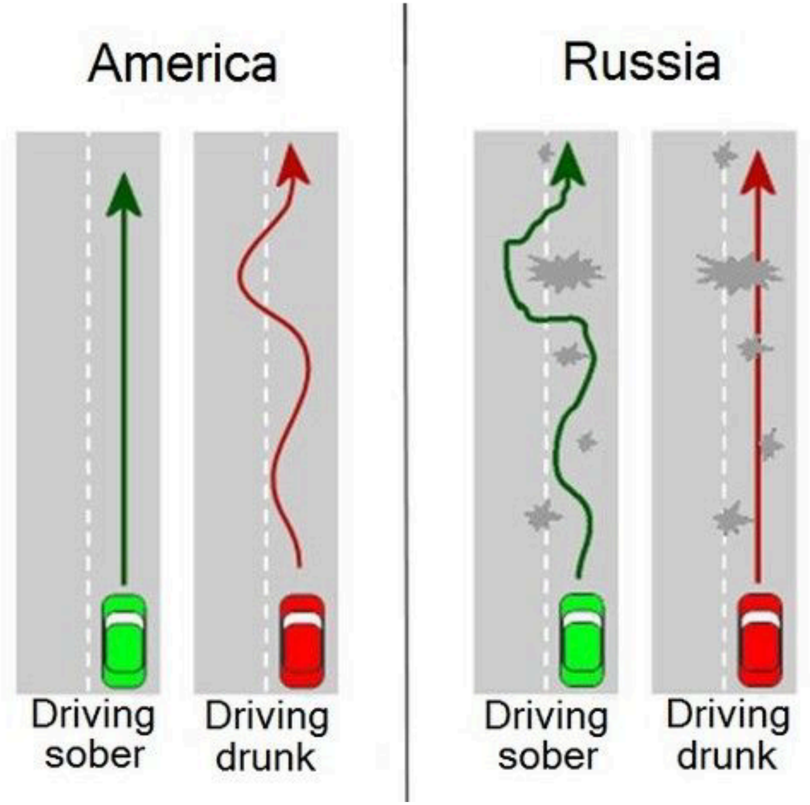
What went wrong ?

Gold rush attitude

- Unreasonable expectations (El Dorado behind the collapsed Iron Curtain)
- Entrepreneurs with dubious credentials and fast tongue
- Relaxation of discipline and risk management best practices

What went wrong ?

Cultural differences



Russian derived processes, very formal and often punitive in nature
- delays
- extra costs

Contingencies on volume rather than on value
- plans wrongly treated as conservative and beatable

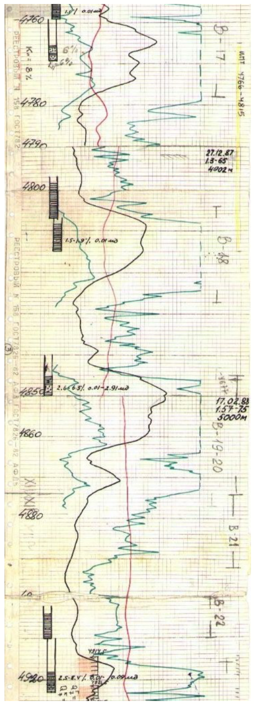
Risk adverse culture
- disputes
- fines

What went wrong ?

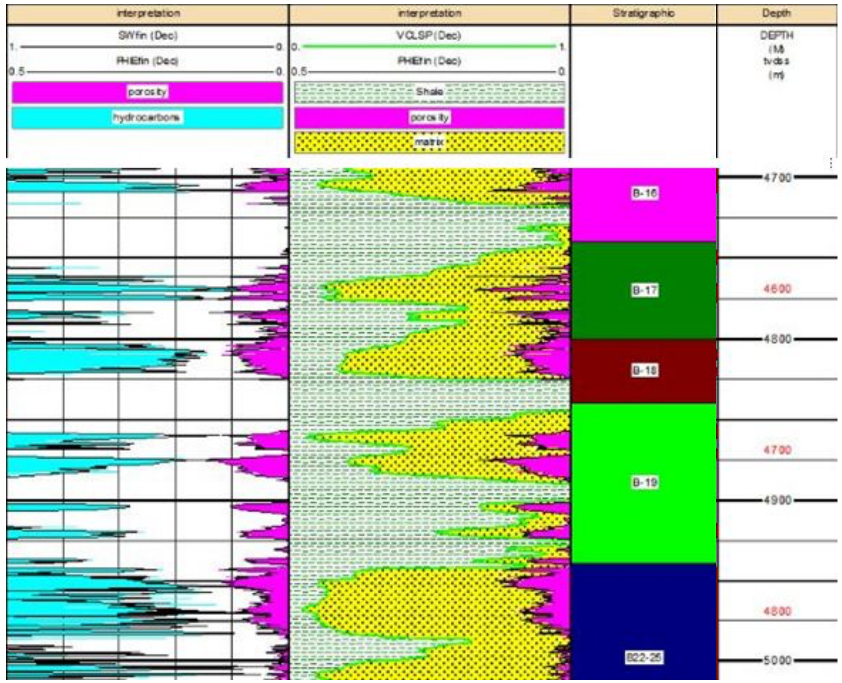
Underestimation of the effectiveness of soviet technology

(and of the ingenuity of the local experts and scientists in making good use of it)

Soviet logs vs. western suite of logs over the same interval of an old well



Old logs: no tests



New logs: two tests, both of them wet

What went wrong ?

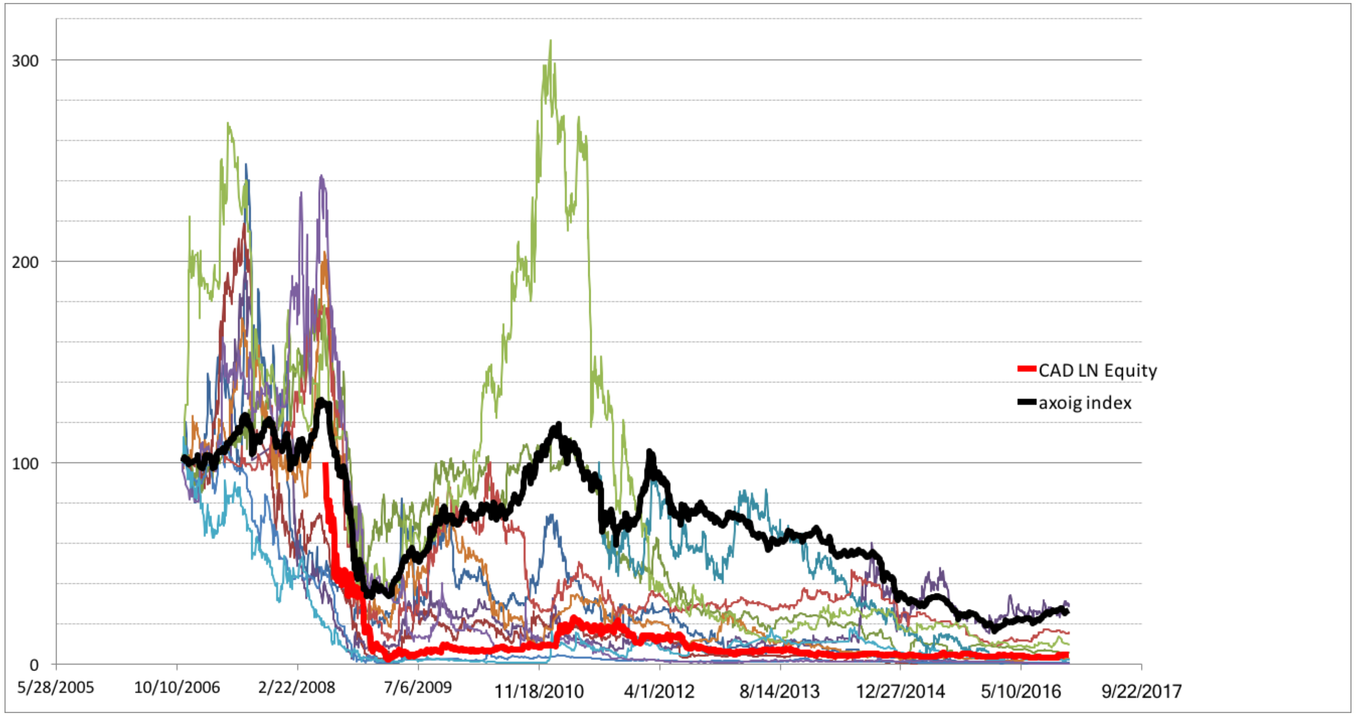
Lack of an investment conducive environment

- Restricted access to technical data
  - state secret and
  - *you-are-the-expert* attitude
- Uncertainty on time and outcome of approval processes
- Excessive bureaucracy
- Heavy taxation
- Limited infrastructure:
  - managed by monopolies
  - expensive (in terms of total cost)

Cadogan was no exception

UBS backed IPO on reserves certified by Gaffney and Kline raised $270 million in 2008 (after raising $220 million in private, pre-IPO rounds)

- Disputes with Ukrainian state company
- Litigations with contractors and with its own founding executives
- Elusive geology : no discoveries, in spite of eni's farm-in in 2011, and cumulative production at August 2016 < 3% of 2008 P1 reserves
- Currently in cash preservation mode while repositioning the company



Misfortunes of Cadogan-like companies do not help Ukraine

- Challenging geology in mature, depleted basins
- Limited award transparency
- Rigid and heavy taxation
- Cumbersome regulations
- Conflicts and overlaps between different public bodies

- FDI down to a minimum
- Lagging exploration
- No technology transfer
- Declining production

[1]Adapted from the presentation of A. McBain, CEO Arawak Energy, at the 2016 Ukrainian Energy Forum

What Ukraine needs to do for the investors to come back

Award process	Licence management	Stakeholders management
Promote licences	Remove duplications and overlaps at all levels	Share revenues with regional councils
Improve transparency	Reduce red tape & simplify processes	Develop service industry
Larger use of PSA's (including brown fields)	Provide certainty on time of outcomes	Support academia and research
Promote partnership with state companies	Shift focus of taxation from volume to profits	
	Reward professional risk taking	

Legend:
Direct impact Indirect impact

Let's turn page

- East Europe and CIS countries still offer opportunities in the e&p domain
  - value creation, but also …
  - ..increased energy self sufficiency
- Investments and technology required
- Investors and host countries alike need to learn from past mistakes:
  - increased transparency, adequate incentives, simpler processes
  - fiscal and regulatory stability
  - less of a gambling attitude and integration of competences
  - rigorous and disciplined approach

Disclaimer

The opinions expressed in this presentation do not represent Cadogan's view, but rather reflect the speaker's personal view.

The speaker does not call himself an expert of Russian and Russian-derived processes and technologies, but rather a humble observer of what he has witnessed, and learnt, over more than 30 years in the industry many of these years in countries which at some time in their history have been on the other side of the "iron curtain". The opinions expressed in this presentation reflect his first-hand experience in many of these countries and are not based on a review of historical performances of the bench mark group of companies. The speaker also has had no access to internal documents of any of the UK listed companies whose share prices are displayed in slide 2.

The speaker is not responsible for decisions taken and/or investments made based on the opinions expressed in this presentation