

# Successful drillings in Russia



Geologic Update  
February 2014

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# Objective of this presentation

Give an overview of Shelton Petroleum's Russian assets in terms of geography, geology and drilling results

Show the positive implications of the latest #12 well on future drillings and reserves

Introduce the concept of horizontal wells with superior well economics

Present keys to value creation for Shelton Petroleum in Russia

# Highlights

Combination of proven oil and exploration upside

Significant increase in reserves expected in next reserves report

Better understanding of the reservoir decreases the geologic risks

The most recent well #12 is a possible game changer

Investing to increase production

- Horizontal wells with superior economics
- Scalable facilities under construction

# Shelton Petroleum asset overview

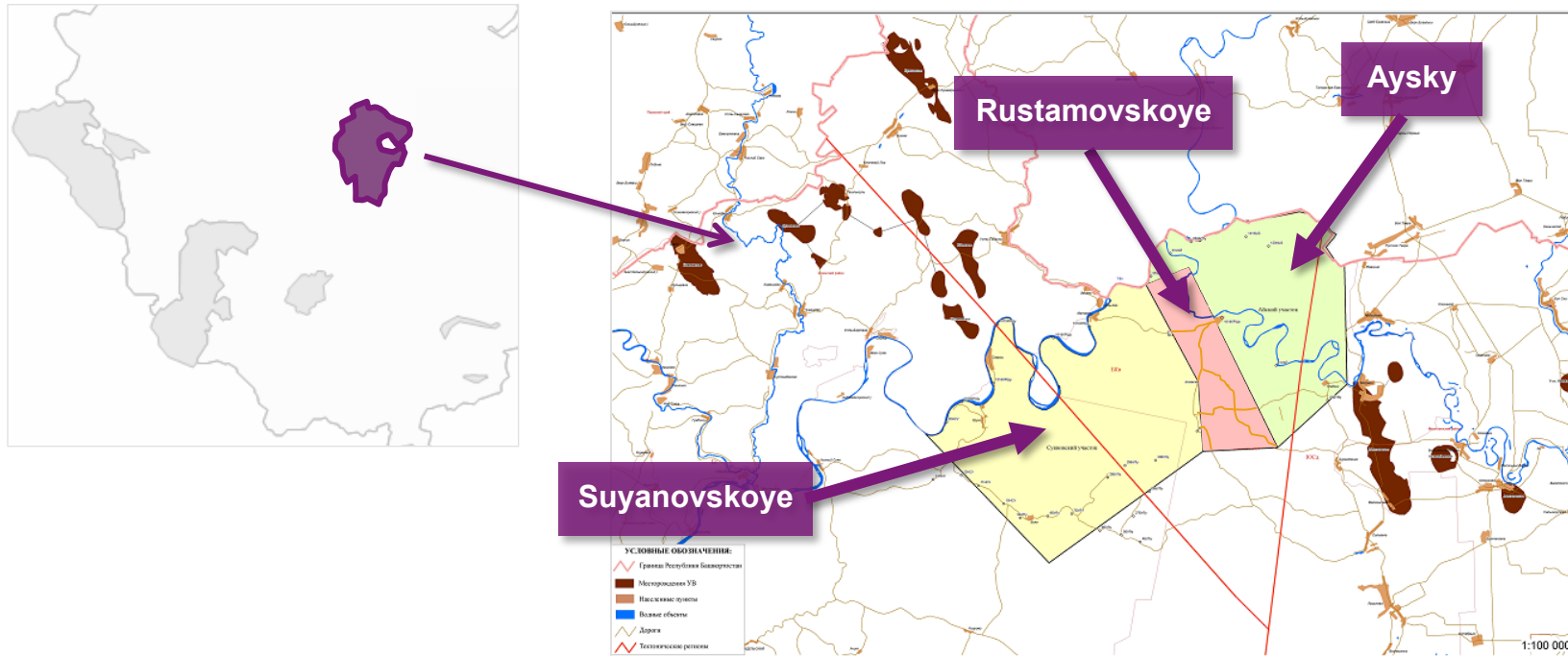


# Bashkiria – the cradle of Russian oil

- Oil prolific region west of the Urals
  - Production of 300,000 barrels per day
  - Refining capacity of 1,000,000 barrels per day
- Home of the Arlanskoye oil field
  - Cumulative production of over 3 billion barrels
- Well developed infrastructure
- Climate allows for work year-round
- Recent Bashneft horizontal drillings with excellent flow rates
- Local equipment and rigs and Western expertise



# Surrounded by Bashneft producing fields



License	Area (km2)	Validity	Shelton wells	Soviet wells	Seismic (km)	Production (bopd)
Rustamovskoye	52	2030	4	5	167	600
Aysky	180	2017	0	10	138	0
Suyanovskoye	300	2034	0	15	85	0

bopd = barrels per day



# High quality oil and reservoir properties

- Good reservoir properties
  - Porosity 16-20%
  - Permeability 630-1,100mD
- High quality oil allows for sales without expensive treatment processes
  - 32° API oil
- Multi-layer potential from Devonian and Carboniferous
- Immediately surrounding fields have original reserves of over 50 million barrels



Porosity is a measure of how much of a rock can hold a liquid  
Permeability is a measure of the ease with which a fluid flows through a rock



## The reserves reports from 2009 do not reflect recent successful drillings and contain substantial upside

License	Geography	Primary product	Reserves			Resource potential	Working interest	Partner
			1P	2P	3P			
<b>Production onshore</b>								
Rustamovskoye	Russia	Oil	1	1	6	43	100 %	
Lelyaki	Ukraine	Oil	3	8	8	-	45 %	Ukrnafta
<b>Exploration onshore</b>								
Aysky	Russia	Oil	-	-	-	-	100 %	
Suyanovskoye	Russia	Oil	-	-	-	-	100 %	
<b>Exploration offshore</b>								
Arkhangelskoye	Ukraine Black Sea	Gas & NGL	-	-	-	130	50 %	CNG
Biryucha	Ukraine Azov Sea	Gas	-	-	-	166	50 %	CNG
North Kerchenskoye	Ukraine Azov Sea	Gas	-	-	-	4	50 %	CNG
<b>Total</b>			<b>4</b>	<b>9</b>	<b>14</b>	<b>343</b>		

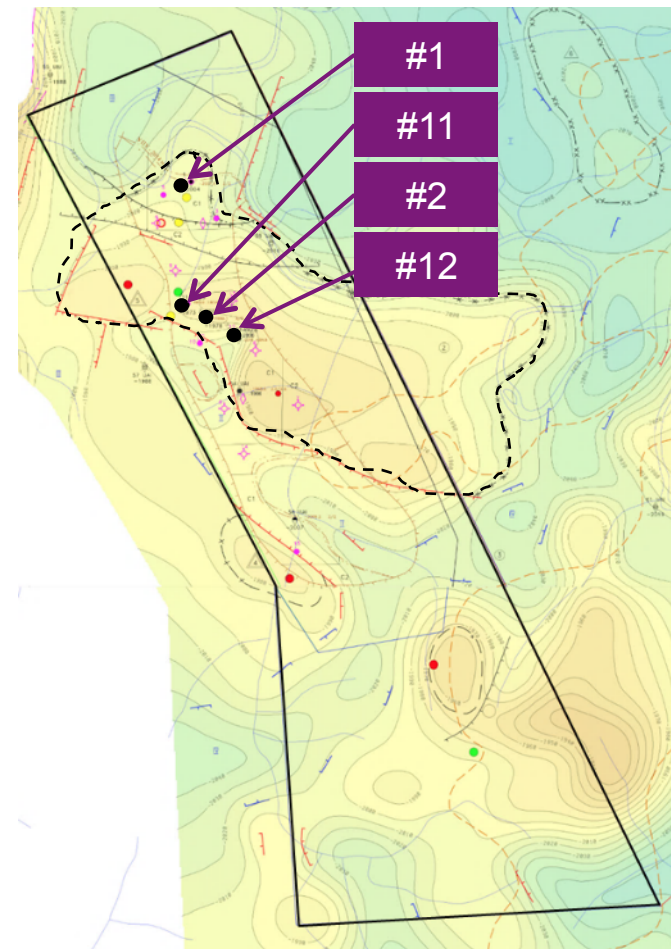
# The latest #12 well is a possible game changer

## New findings

- Higher initial production than previous wells
- Significantly higher net pay
- Extension of the known oil column

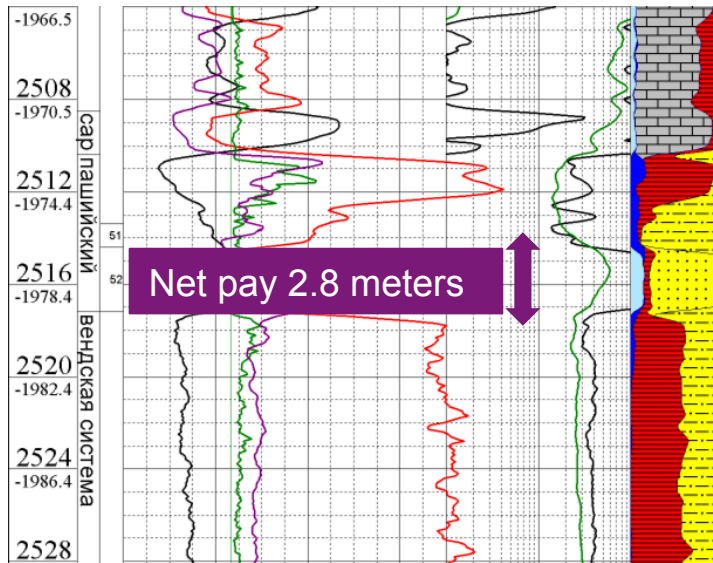
## Positive implications

- Larger reserves
- Improved well economics
- Better conditions for horizontal wells
- Shifts focus towards southeast and into neighboring Aysky license

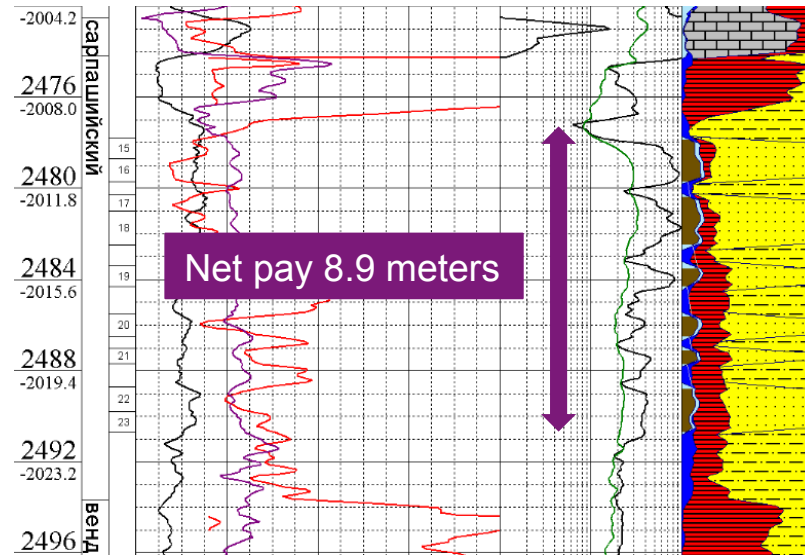


# Record flow rate from #12 well

Well #11

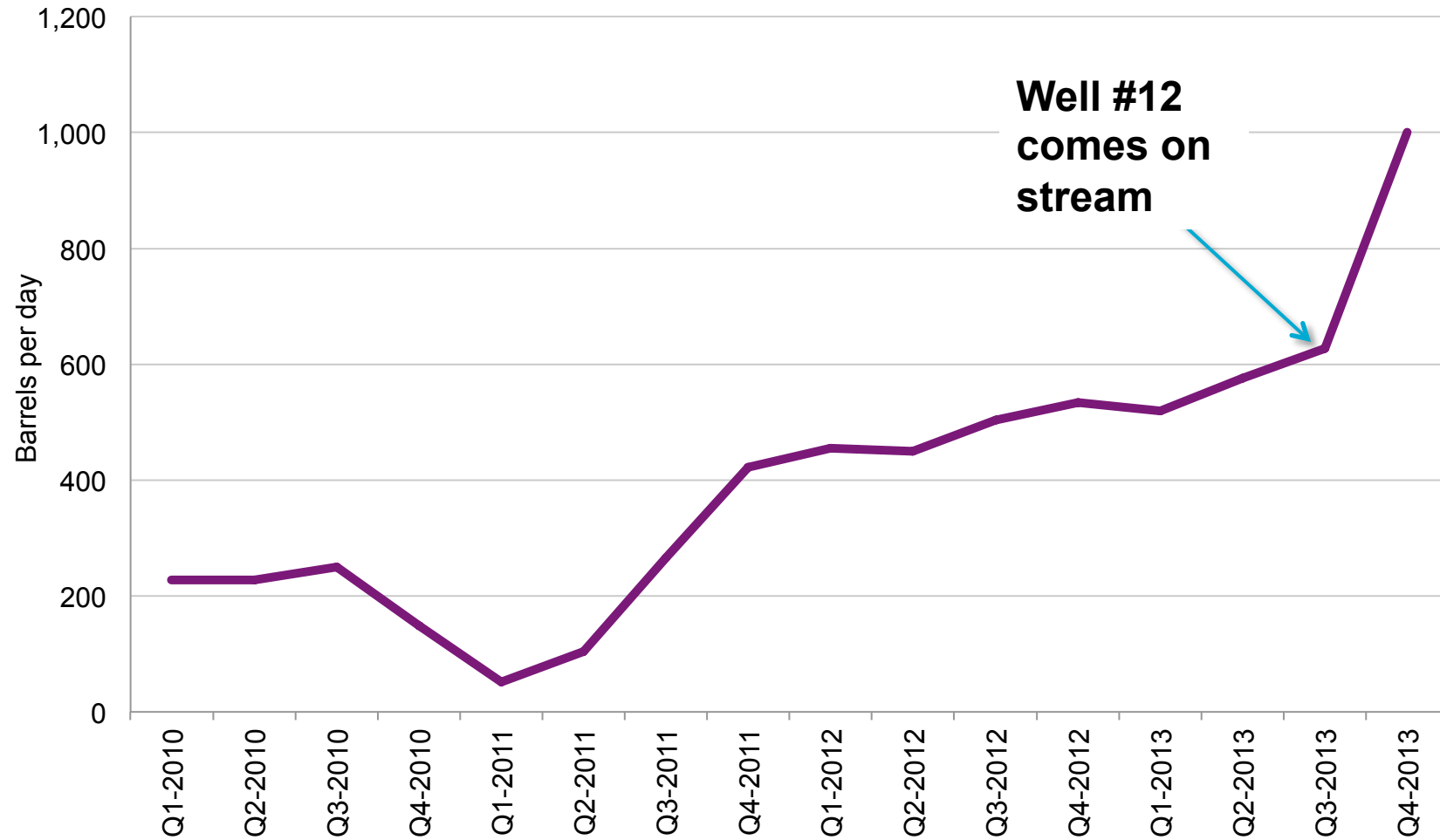


Well #12



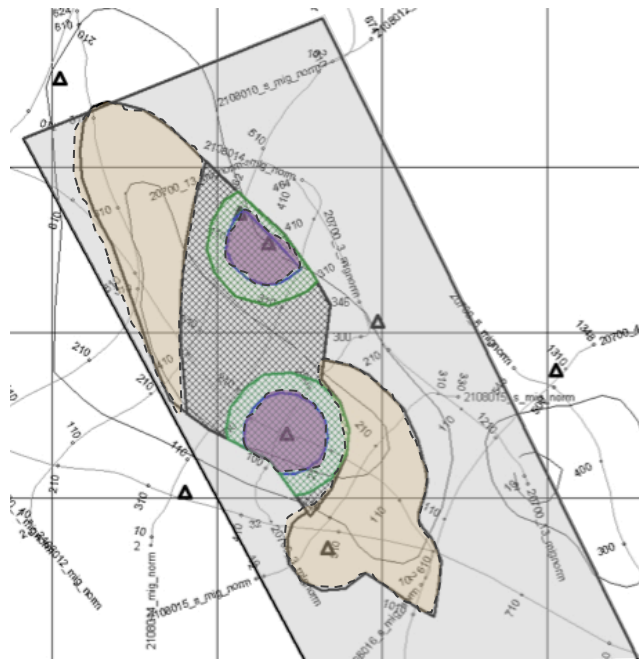
- Significantly higher net pay compared to previous wells
- Extended known oil column from 35 to 48 meters
- Current production in #12 is over 300 barrels per day

# Positive trend in oil production



# The extended known oil column increases the area of the structure

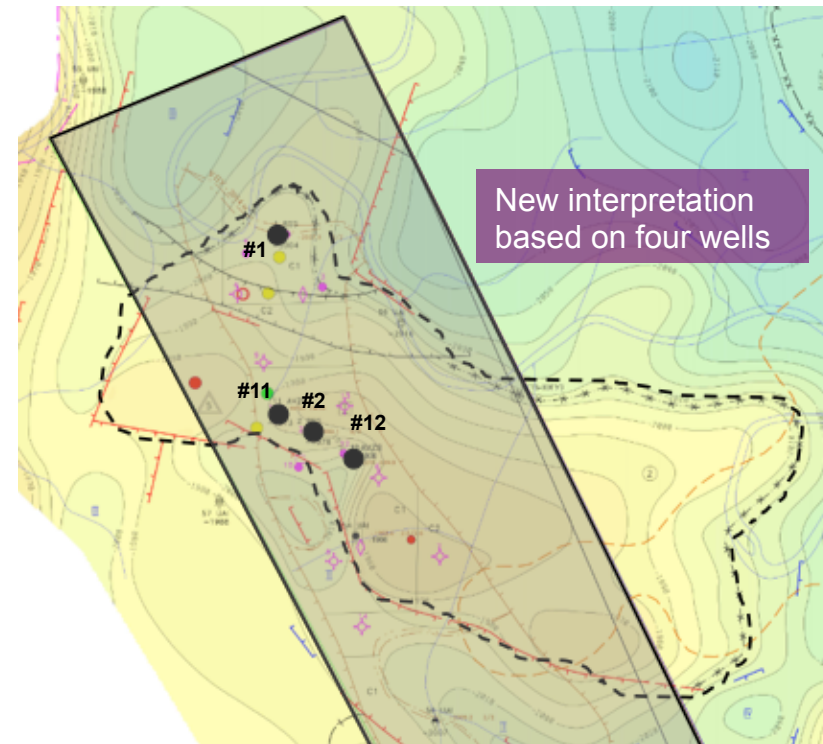
AGR TRACS Resources and Reserves



Areas used for AGR TRACS reserve assessment 2009

- 1P=0.8 mmbbl (1.2 km<sup>2</sup>)
- 2P=1.4 mmbbl (2.6 km<sup>2</sup>)
- 3P=6.0 mmbbl (5.3 km<sup>2</sup>)
- Resources North=8.4 mmbbl (6.2 km<sup>2</sup>)

New interpretation following #12 results



mmbbl=million barrels recoverable, based on Devonian K-P horizon only

# Complex geology but simple arithmetics

Recoverable reserves Rustamovskoye		
	TRACS 3P	#12 well
	Sep 2009	Sep 2013
Area km2	5,3	> 20
Porosity	17 %	15-20 %
Oil saturation	85 %	74-84 %
Net pay	3,0	8,9
Recovery rate	46 %	
FVF	0,901	
<b>Barrels</b>	<b>6 023 412</b>	

# of Barrels =  
 $\text{Area} * \text{Net pay} * \text{Porosity} * \text{Saturation} * \text{Recovery rate} * \text{FVF} * 6.3$

Larger Area and higher Net pay =>  
 Increased reserves

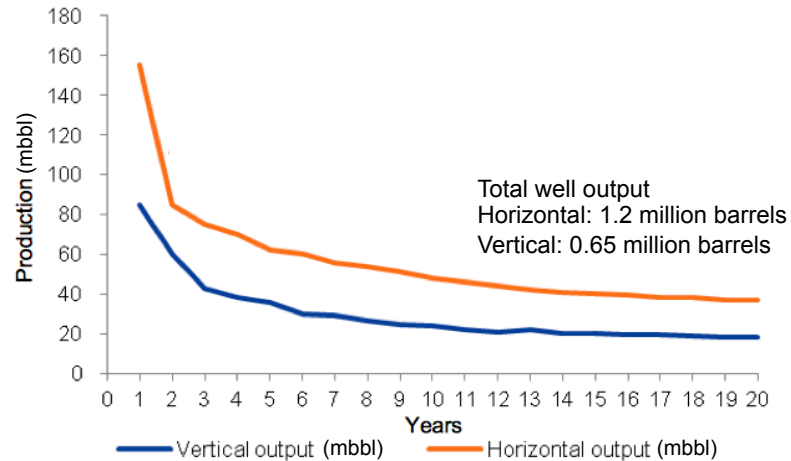
Extension of thickening net pay to be  
 targeted in new drillings



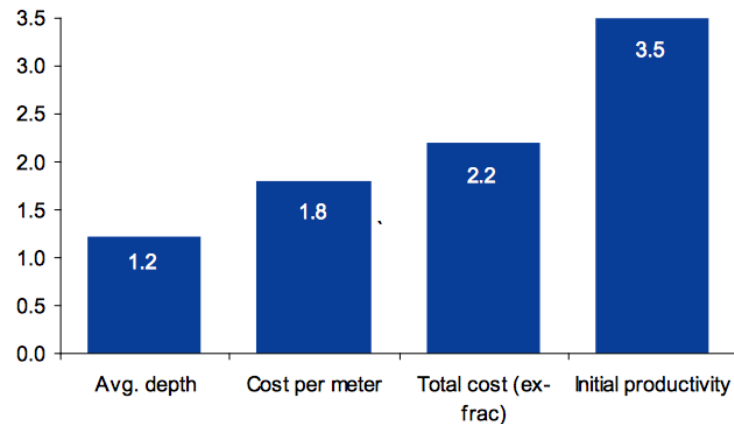
# Horizontal drilling increases well productivity and profitability

- Horizontal wells provide 85% higher cumulative production than vertical wells, yielding higher returns
- Despite being more expensive, horizontal wells on average have higher paybacks than vertical wells
- With an average length of 3,600 meters, horizontal wells are 20% longer than vertical wells, costing 2.2x more and yield around 3.5x higher initial productivity

**Horizontal vs. vertical wells – production profile**

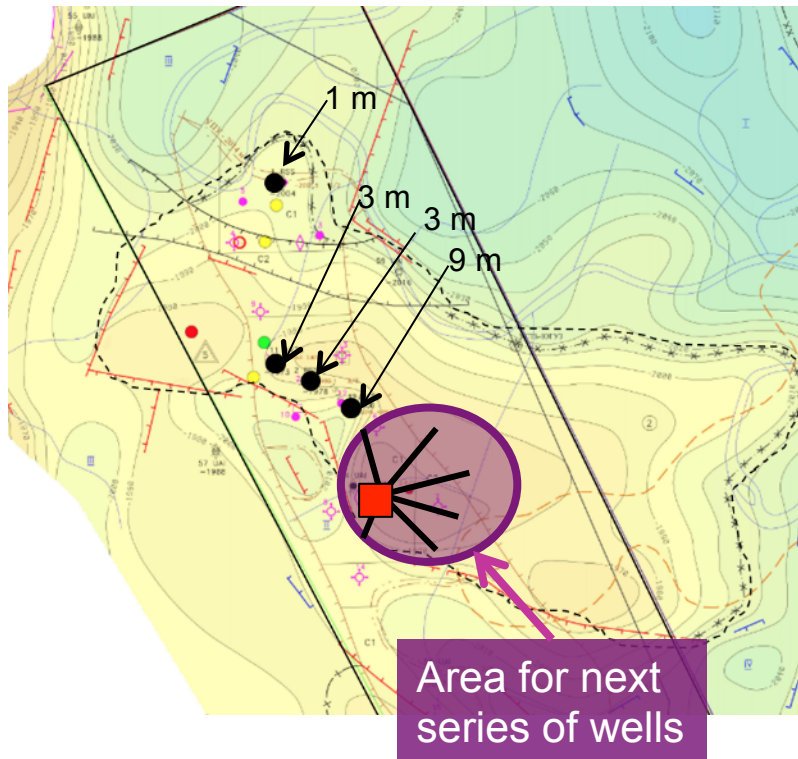


**Average horizontal-to-vertical well ratios (x)**



Source: Oil services company C.A.T Oil. The figures are based on industry averages and not necessarily fully representative for Shelton Petroleum

# Future drillings to target thicker net pay



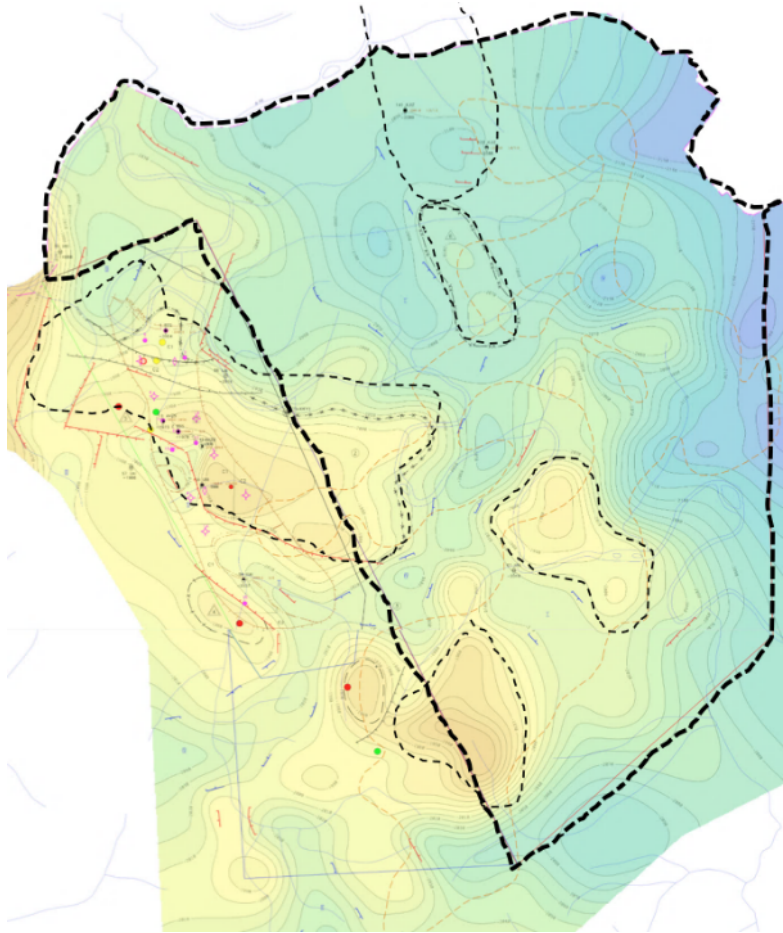
- Drill new production wells with new focus towards south-east
- Target thickening sands
- Horizontal wells with superior well economics
- Reservoir studies and well designs are being conducted to prepare for new drillings

● Wells drilled by Shelton Petroleum  
Numbers indicate net pay in meters

■ New drill pad being designed

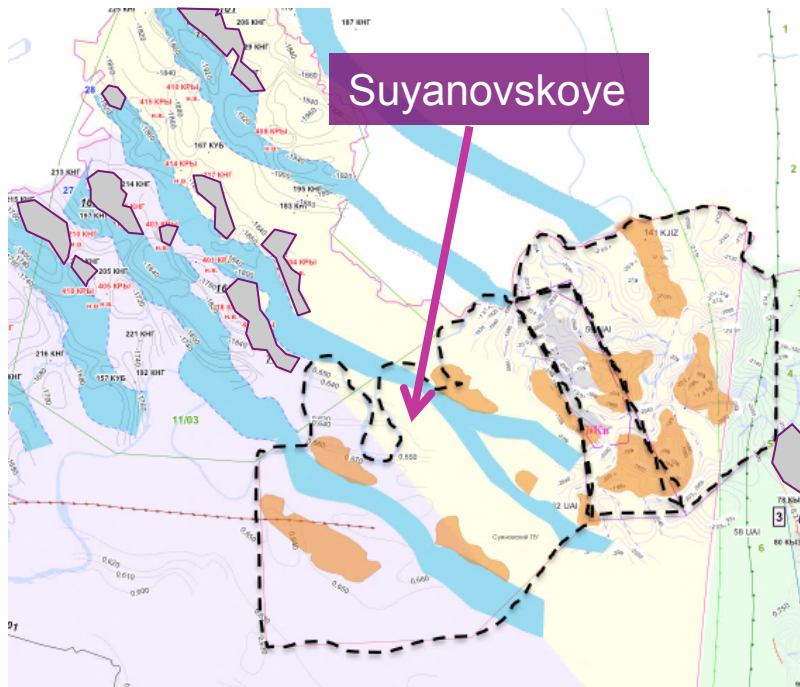
— Schematic new production wells

## Seismic surveys have identified several drilling targets on Aysky



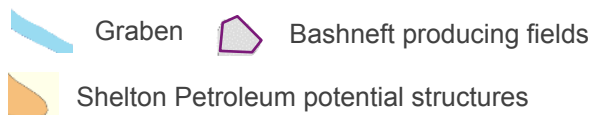
- Aysky has an area of 180 km<sup>2</sup> and lies directly east of Rustamovskoye
- 10 wells drilled during the Soviet times to study local geology. Oil was encountered
- 138 kilometers of seismic collected in 2011-2012
- 66 kilometers of additional seismic planned for 2014
- Several drilling targets have been identified

# Suyanovskoye with vast exploration potential



Schematic illustration of local petroleum trends

10 km



- Shelton Petroleum's largest license area is 300 km<sup>2</sup>, lying directly west of Rustamovskoye
- Helium studies indicate presence of hydrocarbons and active petroleum system
- 85 km seismic program commenced, covering the Western area adjacent to the producing Rustamovskoye field
- 15 wells drilled during the Soviet era and oil was encountered, but not drilled to the depths from which Shelton produces on Rustamovskoye
- Bashneft produces from fields directly to the north of Suyanovskoye

## Investing for production growth

- Facilities for gathering, measurement, separation and storage of crude oil
- Design capacity is 2,000 barrels per day and can be scaled up with minor investments
- Will serve as hub for future production from Aysky and Suyanovskoye



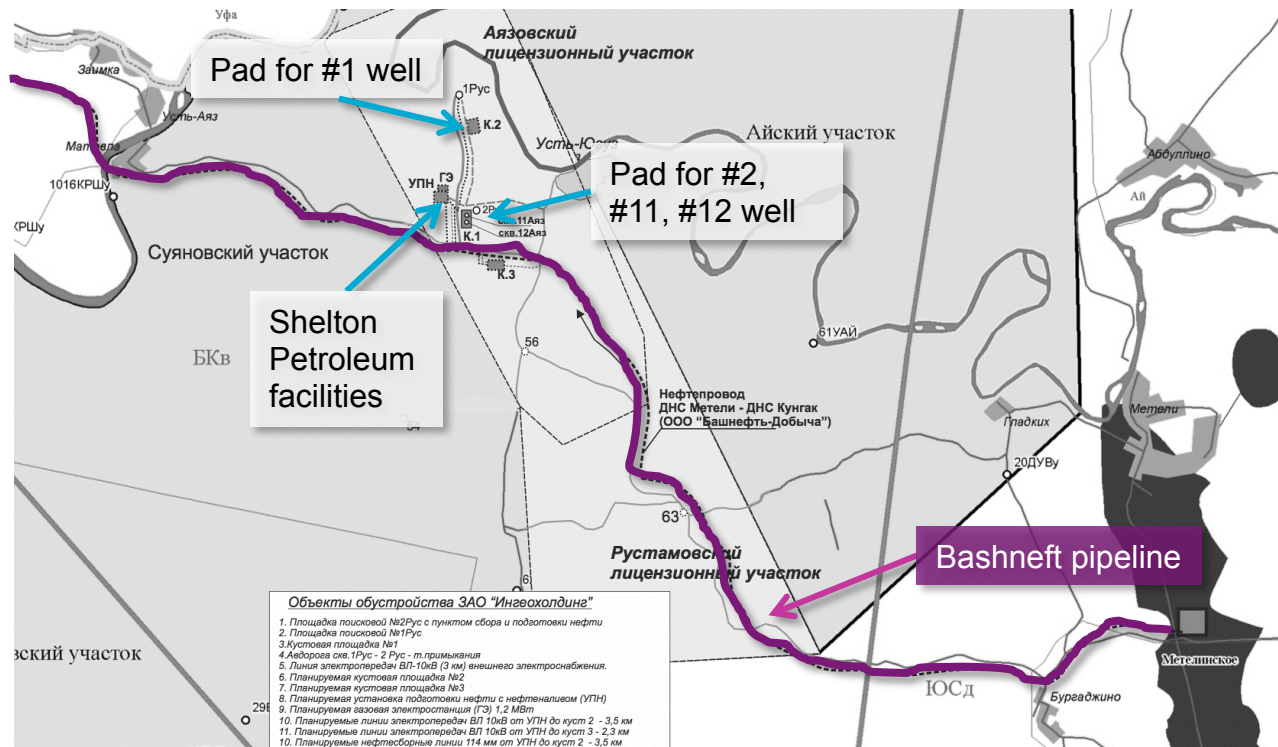
Shelton infield pipeline from well to facilities



Measuring station



# Facilities and transportation



- Good access to roads year-round and electricity
- Bashneft pipeline with spare capacity runs through the license blocks
- Shelton Petroleum facilities are under construction 1 km from pipeline



# #12 well implications

- Financial**
  - Cash flow from oil sales covers opex and part of capex
  - Economies of scale increase profitability per barrel
  - Increased stability and flexibility in further financing. Opens up debt financing opportunities
- Operational**
  - Oil currently sold at well head and transported by truck. Increased volumes open up opportunity for pipeline sales with increased profitability per barrel
  - Larger net pay facilitates horizontal drillings with superior economics (fewer wells, lower opex, greater and faster recovery)
- Reserves**
  - Larger net pay and extended oil column increases volumes of oil



# Keys to value creation in Bashkiria

- Drilling of new wells on Rustamovskoye
  - Design of new drill pad in the center of the structure has been commenced
  - Successful new drillings will add production and increased cash flows
- Repeating the results from well #12
  - The next well will demonstrate if the new additional pay is extensive
  - Horizontal wells may improve well economics substantially
- Increased reserves and resources in new report
  - The extended oil column allows for a larger area – the oil water contact has not yet been determined
  - Thicker sands means larger volumes of oil
  - Increasing the total amounts and upgrade between reserve categories
- New oil facilities will improve efficiency from wellhead to point of sales
  - Investments in scalable oil facilities with 2,000 bopd are underway
  - Future access to pipeline will raise sales prices, reduce opex and enhance profitability
- High exploration potential on neighboring licenses
  - Shoot seismic and drill identified structures on Aysky
  - Suyanovskoye is six times larger than Rustamovskoye, and exploration has only begun
  - Opening a new play

