

JKX Oil & Gas plc issues operational update

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The Company is re-evaluating field development plans in Ukraine, with the aim of restarting drilling as soon as possible.

13 October 2017

JKX Oil & Gas plc

("JKX", the "Company" or the "Group")

Operational Update

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Average Group production for September 2017 was 8,590 boepd, a 6.1% month-on-month decrease and a 14.9% year-on-year decrease for the first nine months of the year. An extensive review of the Phase 1 fracturing campaign at the Rudenkivke field in Ukraine determined that a significant amount of geological work is still required to understand this complicated reservoir before further significant expenditure can be justified. The Company is re-evaluating field development plans in Ukraine, with the aim of restarting drilling as soon as possible. For the moment, the focus on well workovers and other operations in producing fields. A delay of the workover of Well 5 in Russia is pushing back planned production to late November or early December. In Slovakia, project operator, Alpine Oil and Gas, following repeated delays caused by protesters and growing environmental reporting requirements is reconsidering its options with regard to continued operations. **Production for September 2017**

September

** **

2017

** **

August

** **

2017

% Change

* *

9 months to September

2017

9 months to September

2016

% Change

* *

Total production (boepd 1)

8,590

9,146

			
			(6.1)%
			
			8,645
			
			10,155
			
			(14.9)%
			
Ukraine (boepd)		3,029	
		3,293	
			(8.0)%
			
		3,595	
		4,039	
			(11.0)%
			
- Average gas production (MMcfd2)			14.3
		15.4	
			(7.1)%
			

	17.3	
	18.6	
	(7.0)%	
	 	
- Average oil and condensate production (boepd)		646
	721	
	(10.4)%	
	 	
	711	
	938	
	(24.2)%	
	 	
Russia (boepd)		5,501
	5,747	
	(4.3)%	
	 	
	4,905	
	6,116	
	(19.8)%	
	 	
- Average gas production (MMcfd)		32.6
	34.1	
	(4.4)%	
	 	
	29.1	
	36.3	

	(19.8)%	
	 	
- Average condensate production (boepd)		63
	65	
	(3.1)%	
	 	
	54	
	65	
	(16.9)%	
Hungary (boepd)		60
	106	
	(43.4)%	
	145	
	-	
	100%	
- Average gas production (MMcfd)		0.3
	0.6	
	(50.0)%	
	0.8	
	-	
	100%	

- Average condensate production (boepd)

5

8

(37.5)%

10

-

100%

Average Group production for September 2017 was 8,590 boepd, a 6.1% month-on-month decrease and a 14.9% year-on-year decrease for the first nine months of the year. The year-on-year decrease was largely due to the delayed workover of well 25 in Russia and natural production decline in Ukraine and Hungary. In Ukraine, production was down month-on-month in September mainly due to a scheduled shut-down of the Novonik gas plant during which shut-in BHP surveys were conducted on the majority of the producing wells. In Russia, production was down month-on-month, primarily due to decline in output from Well 27 where an acid job was carried out at the end of the month as opposed to the beginning in the previous month. In Hungary, production from well Hn-2 at the Hajdunanas field was down due to natural decline, as well as a shut-in ahead of a workover of well Hn-1. **Rudenkivske fracturing campaign update** An extensive review of the Phase 1 fracturing campaign was conducted which resulted in the following main conclusions: A significant amount of geological work is still required to understand this complicated reservoir before further significant expenditure can be justified. The presence of large volumes of formation water in post fracture production was not predicted, primarily because the petrophysical constants utilized in calculations were not suitable for lower quality rock that was fractured. Operationally the fracturing program went as planned with majority of stages pumped as per design, while the use of monobores enabling safe fracturing of old soviet wells. Out of the 4 fractured wells, the Company plans to introduce gas lift at R6 and, if successful, at R19, while R25 and R10 are in the process of being abandoned. We are now updating the Field Development Plans for Ukraine. This will enable us to embark on an investment program to increase production volumes and restart our drilling program in 2018. We are currently looking at different options to raise external financing needed to implement this strategy. **Technical Update for July-September** In Ukraine, after a break due to preparation for the fracturing campaign, the Company is refocusing on workovers and other operations at producing fields: M153 was worked over to clear a wax and salt blockage in the tubing, which resulted in the well restarting production at the rate of 50 boepd. M202 was put on gas lift which resulted in an increase in the monthly average gas rate from 0.1 to 0.3 MMscfd and an increase in condensate production of 20 boepd seen in September. M166X was re-started in September and has produced 1050 stb of oil and 3 MMscf of gas at an average water cut of 78%. In both Ignativske and Elyzavetske tests were conducted on the gas producing wells to determine the potential benefit from installing additional compression. These tests were encouraging with an increase of 1.25 MMscfd seen in Ignativske and 0.8 MMscfd benefit seen in Elyzavetske. After the failure of an ESP at IG110 in August the Company is re-evaluating the Ignativske field waterflood project. Attempts at workover of R15 targeting an oil zone, which produced in the past, have so far been unsuccessful due to fish in the hole and a suspected casing leak, but will continue. In Russia, After a second acid job on 6th

July, Well 25 has continued to perform well after the installation of chrome tubing. At the end of September it was producing 10.5 MMscfd. 2 acid jobs were carried out on Well 27 in the period, the first on the 5th August and the second on the 25th September. After the second acid job the initial choke was reduced from 38 to 36/64th" in an effort to stabilise production and lengthen the time between acid jobs. Well 20 is currently producing 12.4 MMscfd with only a slight decline in the production seen during the reporting period. Well 5 workover is experiencing delays due to the difficulty of releasing the tubing string from the ratch latch. Production is anticipated to re-start on this well in late November or early December. In Hungary, the Hn-2ST well has been cycled to minimise water production and improvements to the separator and gas refrigeration system have helped to prolong gas & condensate production. In late September the well was shut in prior to the workover of the Hajdúnánás Hn-1 well where several new zones will be perforated for production. The workover should be completed by mid-October at which time sales gas deliveries will restart.

Slovakia Environmental Impact Assessments (EIA) have been completed for three well locations within the Carpathian Fold Belt. The Operator (Alpine Oil & Gas) is in negotiation with the authorities in Bratislava to review the results of the EIAs and secure agreements to allow exploration drilling to take place. To date the government has refused to engage in dealing with landowner/environmental protests despite the mechanisms to bypass the protestors being available through the mining law. Access to and construction of rig sites has now been blocked by protestors for nearly two years. The Joint Venture is considering its options with regard to continued activity in Slovakia.

Bond repayments and restructuring In January 2017 the Company was able to restructure the remaining \$16 million of Bonds resulting in the liability being amortised over three years starting from February 2018. In August 2017, the Company paid the convertible bond interest of \$1.1million. The next bond payment of \$6.9 million is planned to be made in February 2018. The financing of the Bonds is within the operating cash flow capabilities of the Company.

Board changes and transition period Following results of the AGM on June 30, the Board is actively looking for new Executive and Non-Executive Directors. Victor Gladun and Dmitriy Poddubny, the General Director and the Finance Director of our Ukrainian operating subsidiary, have taken on the role of Acting CEO and Acting CFO to secure a smooth management transition over this challenging period.

Reductions in overheads The third quarter was a period of cost reduction initiatives. A few measures were taken immediately to significantly reduce the cost burden of the Company's London headquarters. In September 2017 we extracted ourselves from the long-term lease on one of the unoccupied floors. The Company carefully reviewed all current contracts and terminated the agreements with a few service providers to eliminate unnecessary expenses. We also continue to identify cost efficiency possibilities in all Group companies.

Legal disputes in Ukraine For claims relating to 2010, amounting to approximately \$11.3 million (including interest and penalties), the case has been transferred to the High Administrative Court of Ukraine and we are expecting a hearing. For claims related to 2015 of approximately \$25.9 million, PPC is involved in proceedings in the Poltava District Administrative Court, which are temporarily suspended and related to the main Arbitration case. The Ministry of Justice in Ukraine filed an appeal to set aside the arbitration award for damages against Ukraine and in favour of JKX. The High Court of the United Kingdom considered the appeal on 12 October 2017 and we are expecting the official ruling shortly.

1boepd - Barrels of oil equivalent per day 2MMcfd - Million cubic feet per day

This announcement contains inside information as defined in EU Regulation No. 596/2014 and is in accordance with the Company's obligations under Article 17 of that Regulation.