

ROMGAZ



Societatea Națională de Gaze Naturale Romgaz S.A. - Mediaș - România

**To: SNGN ROMGAZ SA EXTRAORDINARY GENERAL MEETING
OF SHAREHOLDERS**

Report to:

- Approve Romgaz withdrawal from Snina and Medzilaborce blocks in Slovakia;
- Approve for Romgaz to receive at no cost its 8.33% share of JKX's participating interest, following the latter's withdrawal from the Concession Agreement and JOA in relation to blocks Snina, Medzilaborce and Svidnik located in Slovakia.

I. Partnership overview

a) *Partnership History*

Following the execution of the Farm-In Agreement (Transfer Agreement) on June 5, 2018, with Radusa Oil&Gas SRO, Magura Oil&Gas SRO and Dukla Oil&Gas SRO (subsidiaries of Aurelian Oil&Gas London in the Slovak Republic), Romgaz has become petroleum agreement co-title holder, with a 25% participating interest in 3 Exploration Development and Production blocks from the Slovak Republic:

- Svidnik
- Snina
- Medzilaborce

The current situation of the partnerships in the three blocks from Slovakia is as follows:

Operator

- Alpine Oil&Gas S.R.O. (subsidiary of Discovery Polska) 50%;

Non-operators

- ROMGAZ, by Bratislava branch 25%
- JKX London (by its branch in Slovakia) 25%

b) *History of the exploration works performed within the three blocks from Slovakia (according to Annex 1)*

Phase I (1 Aug 2006 - 31 July 2010)

- 2006 inventory and evaluation of the existing data related to the exploration works, performed in the past, within the three blocks
- 2007 field works, results analysis from old wells drilled within the three blocks

- 2008 - 130 km 2D seismic purchase, structural and geochemical studies in the field
Romgaz signed the Farm-in agreement (purchase of rights and obligations within the JOA and Concession Agreements); Romgaz Bratislava Branch is established, as Concession Agreement Title Holder, obligation under the Slovak legislation.
- 2009 purchase of 128 km 2D seismic, surface geological mapping, rocks analysis, seismic processing

Phase II (1 Aug 2010 - 31 July 2014)

- 2010 purchase of 149 km 2D seismic, seismic reprocessing 2008-2009
- 2011 purchase of 300 km 2D seismics, field works, seismic interpretation, comparison with neighbouring blocks from Poland
- 2012 seismic processing purchased in 2011, air-gravimetry on the entire surface of the three blocks
- 2013 completion of the quantitative and qualitative analysis of the gravimetric study performed in 2012, relinquish the non-prospective areas and the protected areas where drilling is forbidden (National Parks and Nature 2000)

Phase III (August 2014 - August 2016)

- Magneto – Telluric data purchase and processing for 444 metering stations which cover four of the most prospective areas with oil accumulation in Svidnik, Medzilaborce and Snina blocks
- Magneto- Telluric data processing and interpretation has made possible the confirmation and outlining of 5 prospects to be prepared for drilling.

Prospective resources related to the three blocks, audited RPS Energy Competent Person Report 2012, are the following:

✚ for Svidnik block (natural gas)

	Gross in Place Volume (Bscf) ¹				Gross in Place Volume (Mmboe)				Gross in Place Volume (Bcm)				GPos (%)
	P90	P50	P10	Mean	P90	P50	P10	Mean	P90	P50	P10	Mean	
Smilno A	2	13	41	18	0.34	2.21	6.98	3.06	0.056	0.364	1.148	0.504	12
Smilno B	1	8	33	13	0.17	1.36	5.62	2.21	0.028	0.224	0.924	0.364	12
Zborov A	8	42	139	62	1.36	7.15	23.69	10.56	0.224	1.176	3.892	1.736	16
Zborov B	6	44	153	65	1.02	7.5	26.08	11.08	0.168	1.232	4.284	1.82	30
STOCHASTIC TOTAL (if all prospects are successful) ²	111	206	366	226	18.92	35.11	62.39	38.52	3.108	5.768	10.248	6.328	<<1
STOCHASTIC TOTAL (given at least 1 success) ³	4	36	150	61	0.68	6.13	25.57	10.39	0.112	1.008	4.2	1.708	54
STOCHASTIC TOTAL RISKED ⁴				33				6.62				0.924	NA

✚ for Medzilaborce and Snina blocks (crude-oil)

Oil Prospects/Exploration Block	Gross in Place Volume (MMboe)	EUR Volume (MMboe)	Gross in Place Volume (10 ⁶ Metric Tonnes)	EUR Volume (10 ⁶ Metric Tonnes)	GPos (%)
Olka/Medzilaborce	38	3.8	5	0.5	15
Kriva Olka/Medzilaborce	23	2.3	3.1	0.31	15
Hrubov/Medzilaborce-Snina	10	1	1.4	0.14	15
Poruba/Snina	17	1.7	2.3	0.23	15

The present exploration phase (August 2016 – August 2021); the minimal programme undertaken by the partners:

- Drilling two shallow wells with a 1,000,000 Eur/well budget in Svidnik block and 100,000 Euro geophysical works.
- Drilling two shallow wells with a 1,000,000 Eur/well budget in Medzilaborce block and 100,000 Euros geophysical works.
- Drilling two shallow wells with a 1,000,000 Eur/well budget in Snina block and 100,000 Euros geophysical works.

TOTAL MINIMAL PROGRAMME: 6,3Mil. Euro, Romgaz share 1,575000 Euro.

We mention the fact that there are no financial penalties in case the drillings comprised in the minimal assumed programme are not performed, as the agreements are „Drill or Drop” agreements.

In August 2016 the licenses for the three concessions were extended up until 2021.

c.) Expenses incurred by Romgaz for supporting the operations

In order to support the mentioned Work Programmes, Romgaz contributed from the date the farm-in contract was signed and up until 31.12.2017 with 6,652,340.19 Euro, this amount is broken down as follows:

Romgaz share -25 %

Year	Snina	Medzilaborce	Svidnik	TOTAL
2008	486,258.52	507,140.72	778,968.12	1,772,367.36
2009	260,632.80	240,219.30	176,420.00	677,272.10
2010	26,261.00	30,200.00	484,002.00	540,463.00
2011	597,330.70	523,392.60	536,096.20	1,656,819.50
2012	220,209.16	207,086.33	196,324.79	623,620.28
2013	47,888.80	47,472.40	44,430.80	139,792.00
2014	34,402.30	118,965.50	63,407.70	216,775.50
2015	78,469.80	153,338.80	128,494.80	360,303.40
2016	73,820.00	114,494.63	263,166.02	451,480.65
2017	35,894.90	79,433.60	98,117.90	213,446.40
Total	1,861,167.98	2,021,743.88	2,769,428.33	6,652,340.19

II. Issues occurred during the petroleum operations in the 3 concession blocks (According to Annex 2)

Starting with December 2015 until now the Slovak concession Operator (Svidnik, Medzilaborce and Snina) faced some issues which made impossible the access to the sites and thus the proposed drilling was not performed.

The main difficulty related to performance of drilling in the three blocks was to obtain the permits and authorizations for drilling and to access to the sites, namely local community violent opposition to such access.

In January 2016 after the sites preparatory works, the operator submitted a report informing the partners on the violent protests from 12.01.2016 of the local community, following which the activity stopped.

At the same time seven legal actions have been filed against the 2016 decision to extend the concession agreements of the three exploration blocks where Romgaz owns interest shares. According to Annex 2, five of the seven legal actions have been dismissed by Slovak authorities.

This situation was caused by:

- Opposition of some members of the local community and of non-government and environment organisations, both by protests as well as by legal actions.
- Lack of institutional support of the higher authorities, Environment Ministry and Agriculture Ministry.
- Lack of local authorities' support.

Action taken by the Operator to resolve these issues:

- Legal actions against the protesters
- The Operator hired the consulting company Chempro for environment studies for the locations Smilno, Ruska Poruba, Kriva Ol'ka.
- Operator's representatives had official meetings with the representatives of the local authority (the mayor of Sarisske Cierne) to find an alternative location within the territory of the respective locality.
- Meetings with the central authorities representatives (parliament representatives) related to the opposition of environment organisations took place, but following the operator's steps the activity could not be resumed.
- Operator's representatives discussed with the Slovak Environment Minister on October 2, 2017 to inform him on the difficulties Alpine Oil&Gaz is confronted with related to the lack of support of local authorities and to the fact that each request for granting a preliminary environmental agreement resulted in the unreasonable request for environment impact, bearing in mind that such study takes around 12 months. The minister mentioned that the local authorities are not under the Environment Ministry jurisdiction, therefore the ministry is not able to influence the local authorities' decisions.
- The Operator hired in its attempts to mediate these situations in the exploration areas, legal consultancy services to settle the legal actions and PR specialists to improve the image propagated in the community.

The activity in the explored blocks stopped due to the opposition of local community members, of non-governmental and environmental organisations that filed actions against the Operator, and also due to the lack of institutional support of local authorities, the Ministry for Agriculture and the Ministry for Environment.

At the Operating Committee on October 3, 2017 the operator presented all difficulties encountered in 2017, concluding that despite all efforts the 2017 work program would not be accomplished. The work program approved for 2017 included drilling three firm wells (one for each block) and two optional wells depending on the results of the wells from the firm drilling program.

In this context, Alpine Oil&Gas representatives stated that they do no longer have financial power to continue operations in Slovakia under those conditions. The last report prepared by the Operator in March 2018 presented the status of the locations considered for drilling in 2017 as follows:

➤ **Snina Concession**

Ruska Poruba Location – the application for the preliminary environmental approval resulted in a groundless request of authorities to prepare a full environmental assessment, considering that such an assessment lasts 12 months and costs EUR 25,000. The operator challenged this decision and on January 30, 2018 the court rejected such decision as groundless. It is necessary to resume procedures for obtaining the preliminary environmental approval to obtain access to this location considering the opposition of the local community and the lack of support from authorities.

➤ **Medzilaborce Concession**

Kriva Oľka Location – the operator provided an answer to more than 300 objections to the preliminary request for the environmental agreement. Until this date the authorities did not issue a decision. The Operator abandoned all approaches for gaining access to the location considering the opposition of the local community and the lack of support from authorities.

➤ **Svidnik Concession**

Smilno-1 Location - the application for the preliminary environmental approval resulted in a groundless request of authorities to prepare a full environmental assessment. This study would not guarantee access to the location because community members stand against drilling activities. The operator abandoned all approaches for gaining access to the location considering the opposition of the local community and the lack of support from authorities.

Sarisske Cierne Location – the operator decided not to take for now any steps to obtain access in the field.

Zborov-1 Location – (optional well) the operator hired in March the consultancy firm Graban&Associates to obtain the right to access the field and the permits necessary for starting drilling activities, such procedure is estimated to last at least 90 days.

As a conclusion, the only location having hypothetical chances to be drilled is Zborov from Svidnik block. At the date hereof, the operator has only verbal agreements of the landowners.

The operator states in the report of February 8, 2018 that the opposition of local community members in Snina and Medzilaborce blocks is extremely high and considers therefore that drilling in these two blocks would be impossible, proposing to relinquish the two concessions.

III. Consequences of the impossibility to implement the assumed work programs

Related to the work program proposed for 2018, the operator proposed to list all three firm wells approved to be drilled in 2016 as “contingent”, and proposed an alternative location in Svidnik block (**Sarisske Cierne 1**) because it considers that the inhabitants are not against drilling activities, although nothing is certain for the moment. There are no steps taken to secure access to this field or to obtain approvals for drilling the well.

The budget agreed for 2018 by the partners is approved only for four months, the extension depends on the opportunities that will rise from the activity performed in the first quarter of 2018.

On February 19, 2018, JKX emailed its intention to withdraw from the partnership, trying first to sell its participating interest.

As a result of the impossibility to perform drilling activities in the existent social and politic climate, the Operator proposed in the report of March to relinquish in March 2018 Snina and Medzilaborce concessions and to reduce the surface of Svidnik concession.

These actions would trigger the considerable reduction of expenses with licence fees payable in October 2018. Currently the licence fee for the three blocks is EUR 185,500 (Romgaz share is EUR 46,375). Relinquishment to part of the contractual area can be made in compliance with the JOA only with the unanimous consent of all parties.

If the parties wish to relinquish part of the contractual area or to withdraw, they are compelled, according to the concession agreement, to notify this decision by the end of April 2018, or they have to pay the licence fee for another year.

On March 16, 2018 JKX officially notified its withdrawal from all three blocks, considering that it did not sell its participating interest to a third party. In this context the other partners should take over free of charge the participating interest of the withdrawing party pro rata with their share or as decided by the non-withdrawing parties. On the conference call on March 23, 2018 (Annex 3) the Operator announced that he cannot/ is not willing to take over JKX participating interest to be received by Romgaz, from Svidnik block, namely 8.33%, stating that it cannot take over the costs of this share, under the circumstance that a third party it discussed with abandoned its intention to take over the participating interest even at 0 costs.

In relation to the elements indicated above, **Romgaz options are the following:**

A. Romgaz not withdrawing from any of the three blocks

Under these circumstances, Romgaz shall become the sole titleholder of the concessions for Snina and Medzilaborce blocks by receiving at no cost the other parties' shares. With respect

to the reduced block Svidnik, the company shall receive a 8.33% participating interest share following JKX withdrawal and shall be co-titleholder together with Alpine (the Operator), subject to Alpine not withdrawing from this block as well.

In this scenario, for at least one more year Romgaz shall be bound to pay EUR 90.300 representing the entire license fee relating to the two blocks where it is sole titleholder and EUR 8,665.8 representing 33.33% share of the license fee relating to the reduced block Svidnik.

Also, concurrently with becoming sole titleholder of the two blocks, Romgaz shall become Operator. The operatorship must be performed via the company's branch in Bratislava, where additional personnel must be hired. In case Romgaz choses to contract Operator services, a tender process is required, resulting in the appointment of a successful bidder. Organizing such a tender is a lengthy process which could last almost until the expiration of the future license payment period. Even in case such process could be organized with ease and in a timely manner, the issues in connection with environment protection activists and lack of support from the central and local authorities continue to negatively impact the future of this project.

Considering the fact that both JKX and Alpine were unsuccessful in their efforts to sell to a third party their participating interest fully or in part, we estimate that an eventual future sell of Romgaz portfolio of interests in Slovakia will be quite difficult.

As such, the 1-year extension of the licenses means for Romgaz, besides the payment of license fees, also the payment of expenses in connection with the operatorship, which can amount a few hundreds of thousands of EUR per year. According to recent information received from the Operator and its legal advisors, suspending the Concession Agreements and the payment of relating license fees cannot be achieved based on this deadlock situation.

In addition to the above, in case the activity renders a negative result, Romgaz being the sole titleholder will be obliged to perform all project-closing operations by itself, which would attract additional administrative expenses as opposed to the case where Romgaz would currently relinquish the two blocks.

B. Romgaz withdrawing from all blocks

According to the Operator's statement pertaining to this option, it will most likely withdraw also from Svidnik block. Romgaz will have to establish a provision for the entire amount invested in this project, according to the table indicated at page 3. Following the withdrawal decision, the Operator will perform all required administrative procedures, regardless whether the Operator withdraws or not from the block, which would eliminate Romgaz risk to pay additional expenses in case it decides to withdraw at a subsequent moment. Additional costs for Romgaz in this case would be the amounts budgeted for the first 4 months of 2018, to which Romgaz has already committed.

C. Romgaz withdrawing from Snina and Medzilaborce blocks and remaining co-titleholder together with Alpine in Svidnik block, reduced to a 36.4 km² surface.

Romgaz will have to establish a provision for the entire amount invested in the two blocks from which it withdraws, in according to the table indicated at page 3.

In case the contractual area is reduced to 36.4 km², the concession fee will be EUR 26,000, Romgaz 33.33% share being EUR 8,665.8.

The Operator proposed for the partnership to carry on its activity in a reduced surface of Svidnik block, specifically consisting of drilling one well whose estimated cost is approximately EUR 3 million. Drilling a sidetrack well on Zborov location, consisting of a 1,000m deviation at an approximately 2,000m depth increases the operational risk of the drilling operation which will encounter difficult flysch-type geological formations specific for the Carpathian geographical area. The difficult technical solution proposed by the Operator is due to the impossibility to secure the access to the land located above the target-prospect. The drilling success rate is relatively small due to the mentioned already issues to which geological and operation risk in connection with actual drilling operations is added. Also, one has to bear in mind that according Annex 1 the prospective potential of this block is relatively low with a geological success rate of approximately 15-16%.

To continue the activity under this configuration, namely Romgaz and Alpine receive JKX's participating interest and continue operations in the reduced Svidnik block, could however have positive consequences:

- in case prospective resources are confirmed by commercial discovery, the invested amounts could be recovered partially or even entirely or, under specific conditions, even with profit
- reduction of license fee expenses
- reduction of G&A expenses.

IV. Conclusions

- The difficult situation over the past few years generated by the virulent and sometimes violent opposition of the local communities and the lack of support and involvement from local and central authorities made impossible the performance of drilling operations undertaken in the minimum work program. Under these circumstances, the operator Alpine announced that it can no longer pay its share of expenses in relation to the 3 blocks held under concession and proposed that all partners withdraw from Snina and Medzilaborce blocks and that operations continue in Svidnik block in a last attempt to drill test Zborov prospect, provided that this contract area is reduced.
- The minority partner JKX was unsuccessful in its attempt to sell its participation interest in all 3 blocks. Afterwards, it notified its withdrawal from all 3 concessions. Under these circumstances, for the purpose of keeping its risk exposure at a steady level, Romgaz addressed the operator regarding the latter's interest to receive from JKX also the share Romgaz is entitled to receive according to the JOA. Initially, Alpine was interested in the proposal stating that it can even transfer at no cost the entire JKX participating interest to an interested third party. Subsequently, it announced that the third party is no longer interest in this transaction and that Romgaz will have to receive its share of JKX's participating interest following JKX's withdrawal. Under these circumstances, we consider that it is not in Romgaz interest to remain the sole titleholder of Snina and Medzilaborce blocks because of the 100% exposure to risk and expenses in case of unfavourable conditions, as pointed out above, and of the low possibility of a future sell of the participating interest.
- With respect to Svidnik block in relation to which the operator wishes to continue the activity and manifests a moderate optimism in connection with drilling a well, we consider that a decision can be made to continue the activity also by Romgaz in the conditions depicted above.

Given the options presented above and the necessity to make a decision, we propose to SNGN Romgaz S.A. EGMS the following:

- To approve Romgaz withdrawal from Snina and Medzilaborce blocks in Slovakia;
- To approve for Romgaz to receive at no cost its 8.33% share of JKX's participating interest, following the latter's withdrawal from the Concession Agreement and JOA in relation to blocks Snina, Medzilaborce and Svidnik located in Slovakia.

Attachments hereto:

Annex 1 – Report no. 43/March 26, 2018 on the exploration works performed in the three blocks located in Slovakia - Considering the confidential information included in this document, ROMGAZ will make available such document for review to shareholders who express their interest at ROMGAZ headquarters, upon signing a confidentiality agreement between Romgaz and the shareholder.

Annex 2 – Report no. 33875/November 27, 2017 regarding the non-performance of drilling works approved in the 2017 budget for the block located in Slovakia- Considering the confidential information included in this document, ROMGAZ will make available such document for review to shareholders who express their interest at ROMGAZ headquarters, upon signing a confidentiality agreement between Romgaz and the shareholder.

Annex 3 – Operator's point of view following the videoconference of March 23, 2017- Considering the confidential information included in this document, ROMGAZ will make available such document for review to shareholders who express their interest at ROMGAZ headquarters, upon signing a confidentiality agreement between Romgaz and the shareholder.

Chairman of the Board of Directors of SNGN Romgaz SA
Nistoran Dorin Liviu

