

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

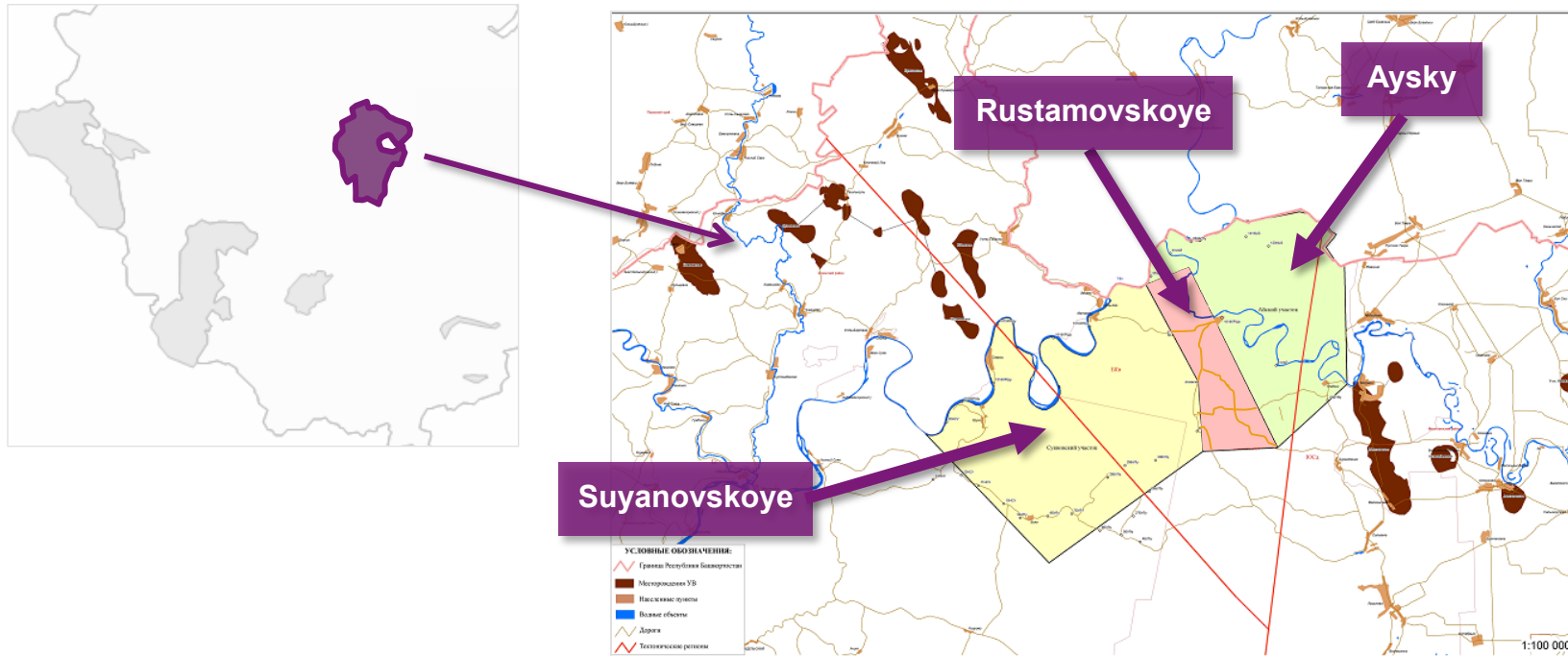


Bashkiria – the cradle of Russian oil

- 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			
Production onshore								
Rustamovskoye	Russia	Oil	1	1	6	43	100 %	
Lelyaki	Ukraine	Oil	3	8	8	-	45 %	Ukrnafta
Exploration onshore								
Aysky	Russia	Oil	-	-	-	-	100 %	
Suyanovskoye	Russia	Oil	-	-	-	-	100 %	
Exploration offshore								
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
Total			4	9	14	343		

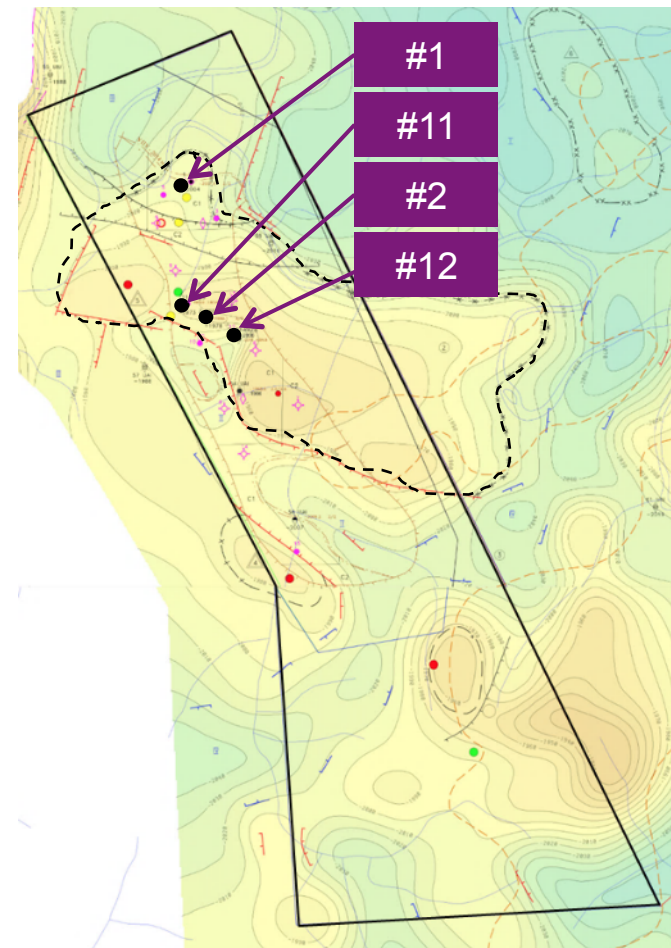
The latest #12 well is a possible game changer

New findings

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

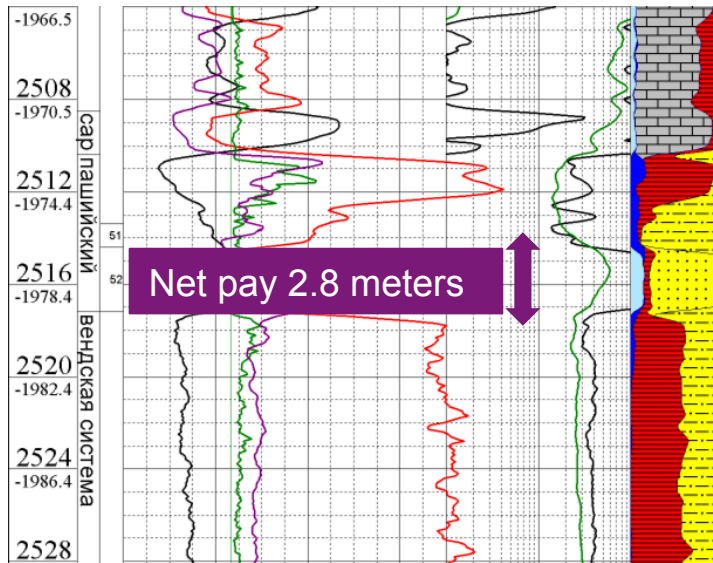
Positive implications

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

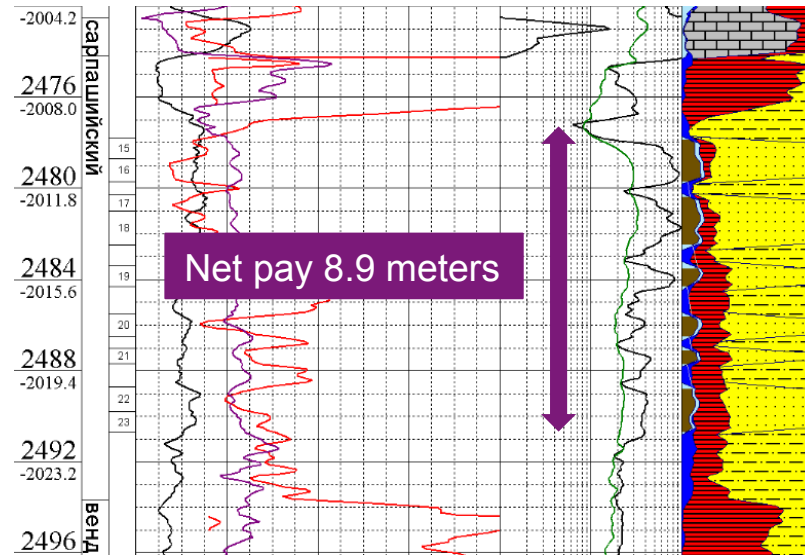


Record flow rate from #12 well

Well #11

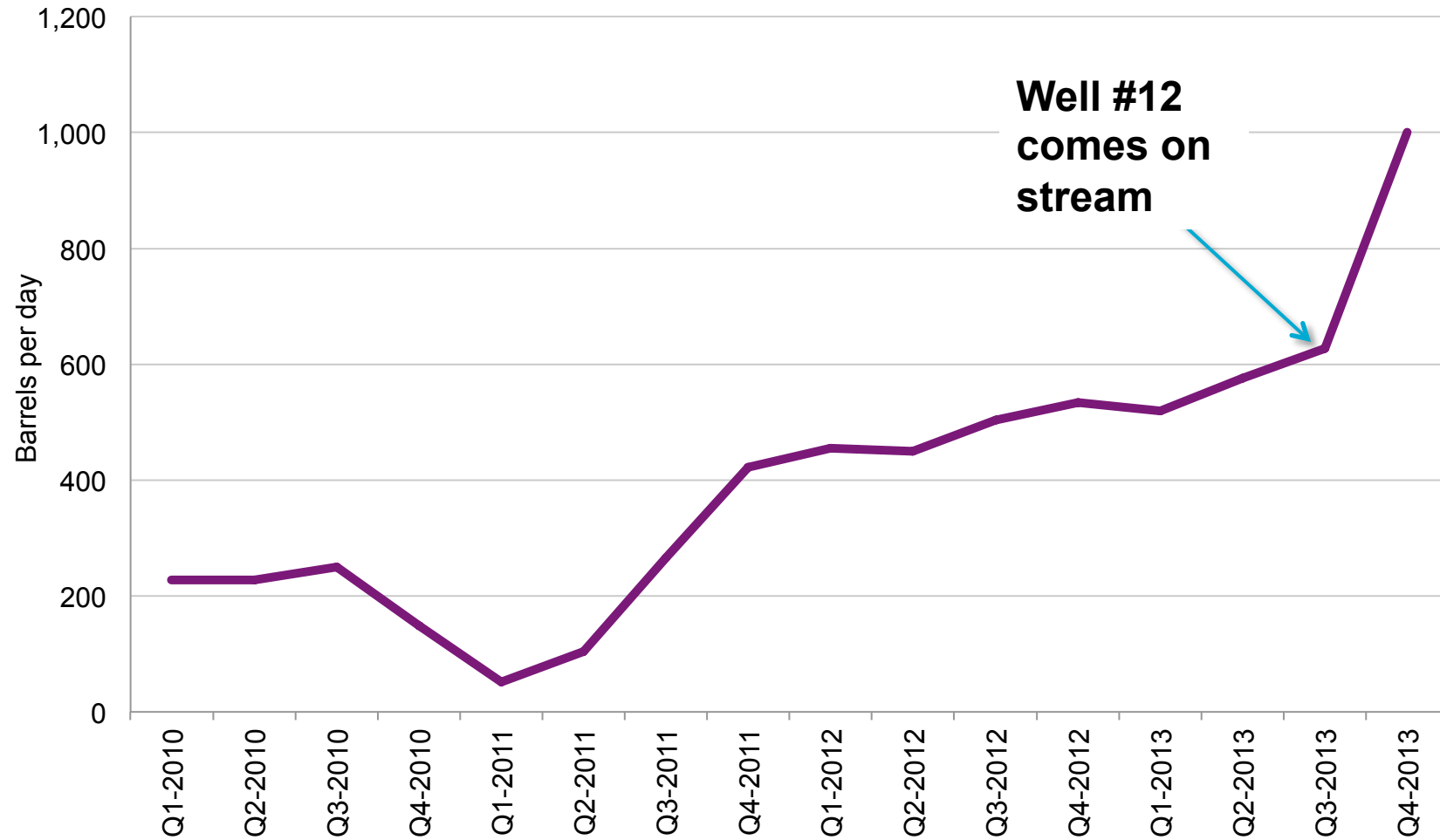


Well #12



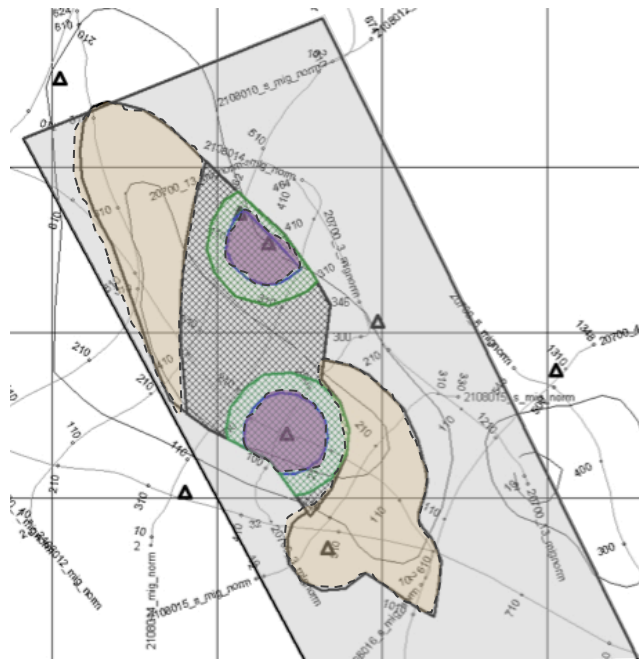
- Significantly higher net pay compared to previous wells
- Extended known oil column from 35 to 48 meters
- Current production in #12 is over 300 barrels per day

Positive trend in oil production



The extended known oil column increases the area of the structure

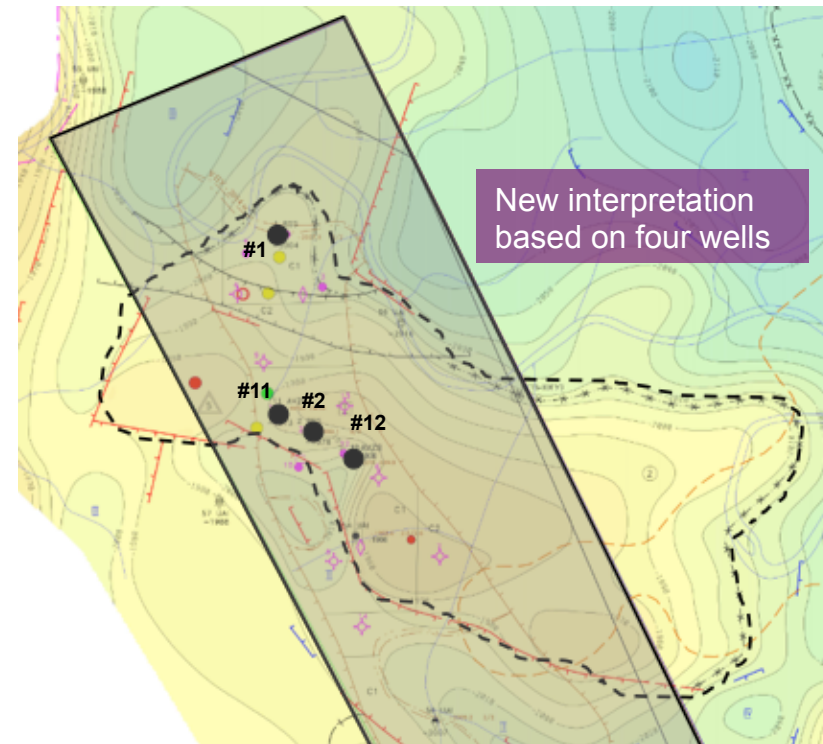
AGR TRACS Resources and Reserves



Areas used for AGR TRACS reserve assessment 2009

- 1P=0.8 mmbbl (1.2 km²)
- 2P=1.4 mmbbl (2.6 km²)
- 3P=6.0 mmbbl (5.3 km²)
- Resources North=8.4 mmbbl (6.2 km²)

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	
Barrels	6 023 412	

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

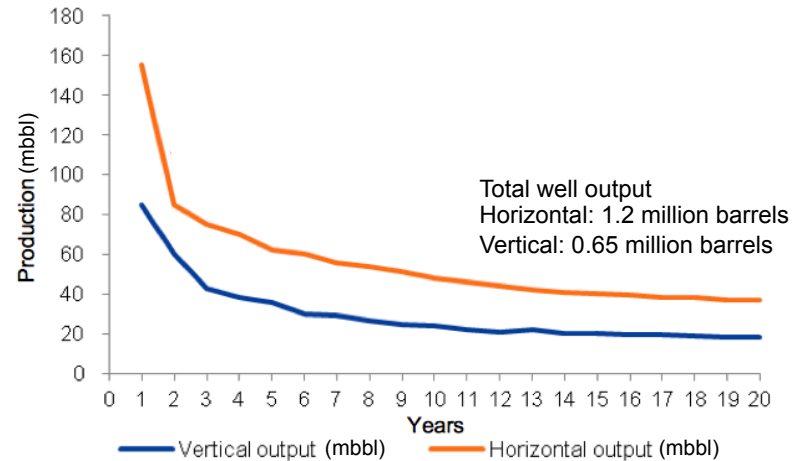
Larger Area and higher Net pay =>
 Increased reserves

Extension of thickening net pay to be
 targeted in new drillings

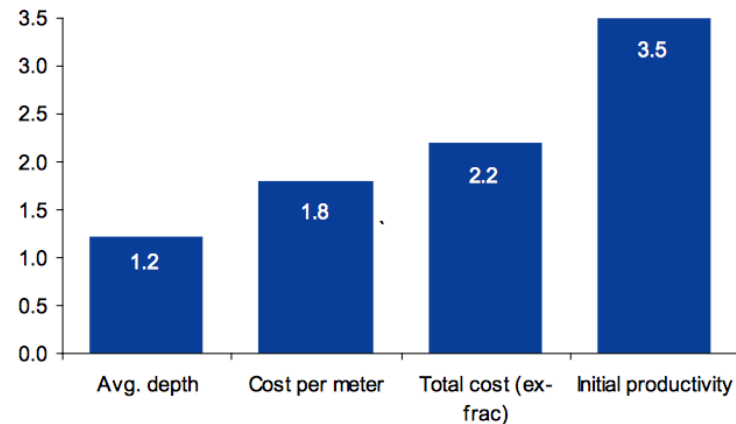
Horizontal drilling increases well productivity and profitability

- 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

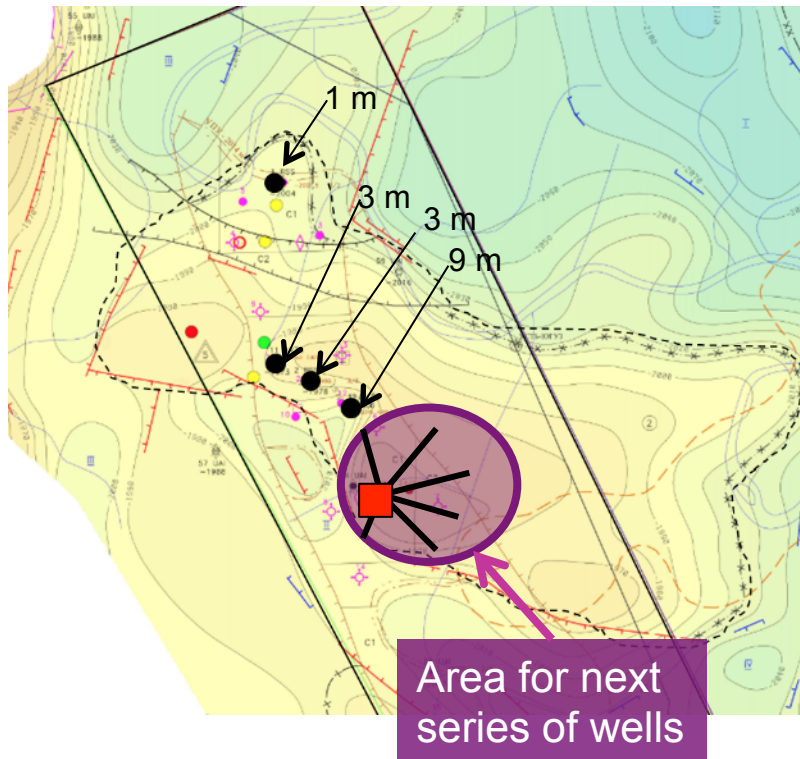


Average horizontal-to-vertical well ratios (x)



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



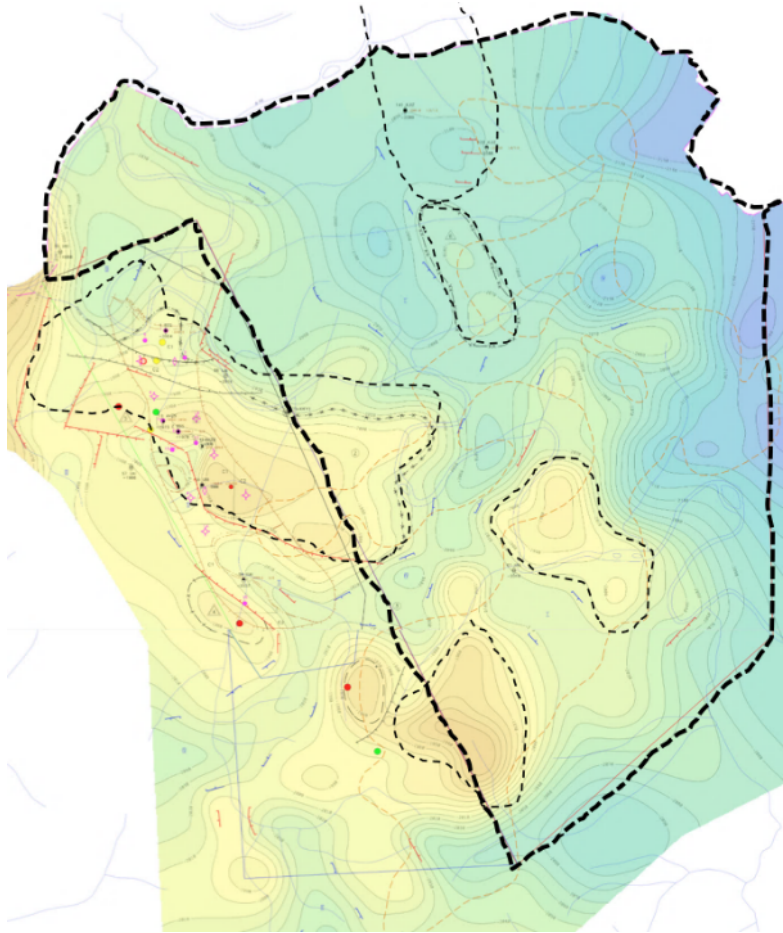
- Drill new production wells with new focus towards south-east
- Target thickening sands
- Horizontal wells with superior well economics
- Reservoir studies and well designs are being conducted to prepare for new drillings

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

■ New drill pad being designed

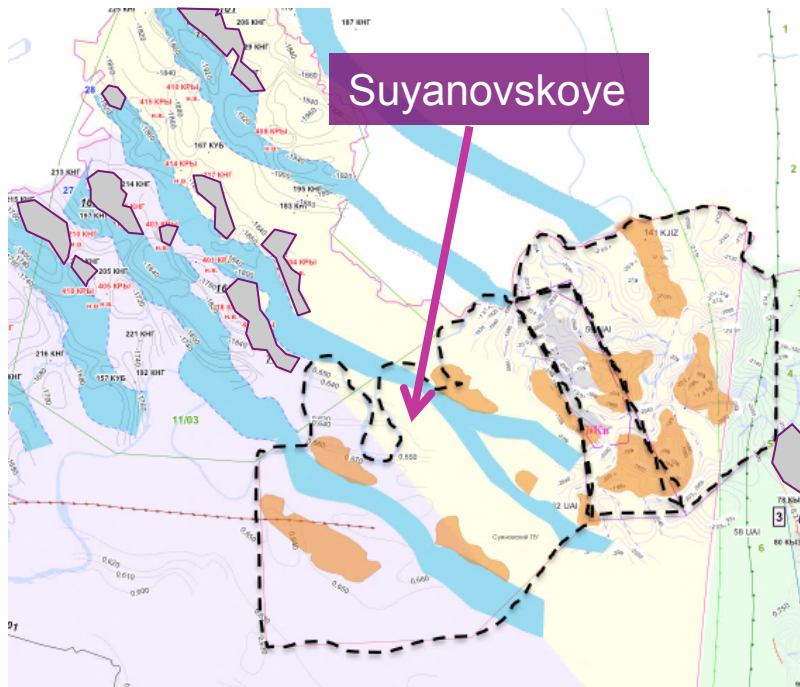
— Schematic new production wells

Seismic surveys have identified several drilling targets on Aysky



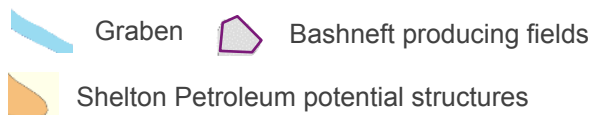
- Aysky has an area of 180 km² and lies directly east of Rustamovskoye
- 10 wells drilled during the Soviet times to study local geology. Oil was encountered
- 138 kilometers of seismic collected in 2011-2012
- 66 kilometers of additional seismic planned for 2014
- Several drilling targets have been identified

Suyanovskoye with vast exploration potential



Schematic illustration of local petroleum trends

10 km



- Shelton Petroleum’s largest license area is 300 km², 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

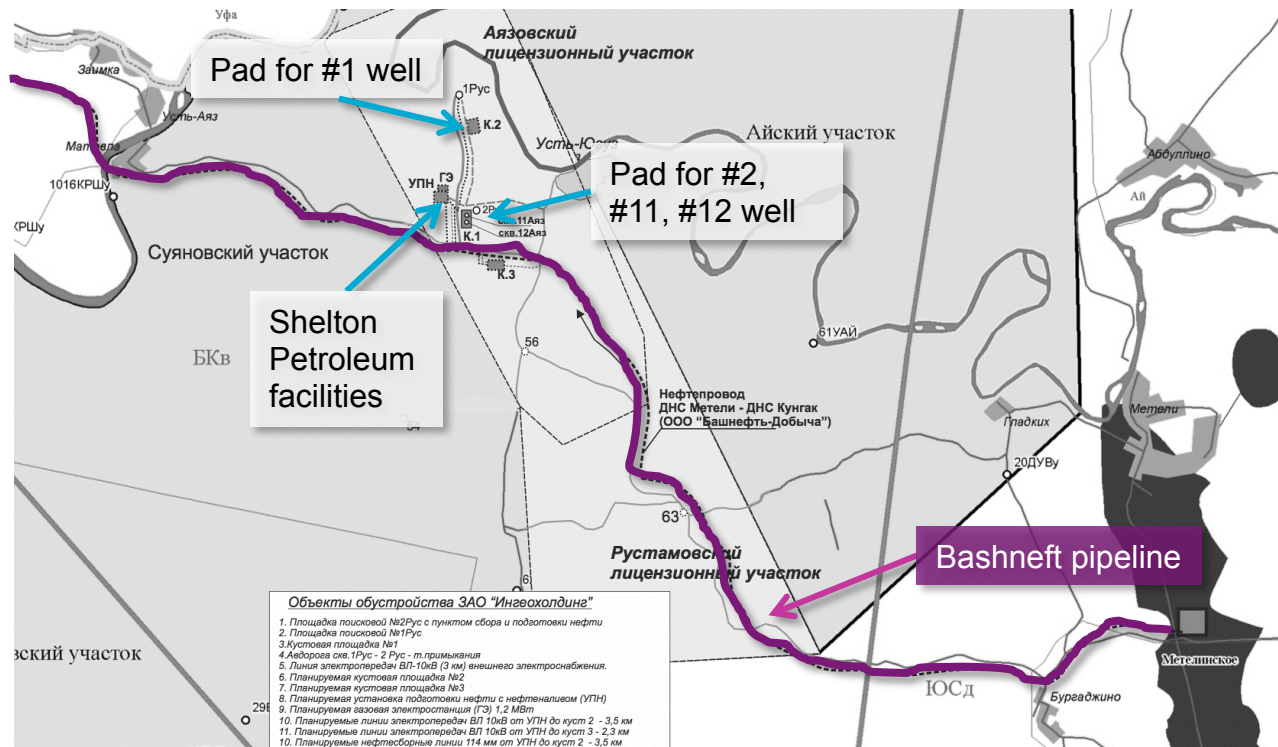


Shelton infield pipeline from well to facilities



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

