



17 January 2019

**Victoria Oil & Gas Plc**  
**("VOG" or "the Company" or "the Group")**

**Q4 2018 Operations Update**

Victoria Oil & Gas Plc, the Cameroon based gas and condensate producer and distributor, provides an update on the Group's operations for the three months ended 31 December 2018 ("Q4 18" or "the Quarter").

**Highlights:**

- Following signature of a binding term sheet with ENEO for a 3-year contract to supply the 30MW Logbaba Power Station, sales to ENEO recommenced on 22 December 2018
- 2018 peak rate of 7.67mmscfd reached on 28 December 2018, following resumption of sales to ENEO
- Q4 Gross gas sales of 403.8mmscf +14% on Q3 (355.6mmscf)
- Q4 Average gas production rate of 4.45mmscfd +20% on Q3 (3.72mmscfd)
- Gross Gas sales for 2018 of 1,410.0mmscf (2017 3,683.6mmscfd; -62%)
- Average production rate for 2018 of 3.75mmscfd (2017 10.98mmscfd; -66%)
  - Grid power sales decreased by 99% on 2017 due to ENEO non-renewal of contract, announced on 5 January 2018
  - Thermal consumption increased 5% on 2017 with addition of 3 new customers and 2 reconnections.
  - Industrial power consumption increased 12% on 2017 with addition of 3 new customers

**Post Period End:**

- Average production rate MTD for January 2019 of 7.8mmscfd as at 14 January 2019
- Presidential Decree received on Matanda license assignment

**Logbaba - Quarterly Production Update**

The Q4 18 gross and net gas and condensate sales for Logbaba and Gaz du Cameroun S.A., ("GDC"), are as follows:

Amounts in **bold** are gas and condensate sales attributable to GDC (57%):

	<b>Q4 2018</b>		<b>Q3 2018</b>		<b>Q2 2018</b>		<b>Q1 2018</b>		<b>Q4 2017</b>	
<b>Gas sales (mmscf)</b>										
Thermal	<b>200</b>	352	<b>194</b>	341	<b>174</b>	305	<b>179</b>	313	<b>177</b>	312
Industrial power	<b>15</b>	27	<b>9</b>	15	<b>9</b>	15	<b>10</b>	17	<b>10</b>	18
Grid power	<b>15</b>	25	<b>0</b>	0	<b>0</b>	0	<b>0</b>	0	<b>226</b>	396
<b>Total (mmscf)</b>	<b>230</b>	404	<b>203</b>	356	<b>183</b>	320	<b>189</b>	330	<b>413</b>	726
Average gas production (mmscfd)	4.45		3.72		3.30		3.50		7.94	
<b>Condensate sold (bbl.)</b>	<b>2,701</b>	4,738	<b>2,298</b>	4,032	<b>1,657</b>	<b>2,907</b>	<b>1,654</b>	2,900	<b>3,951</b>	6,931

### **Consumption Increased**

Notwithstanding ENEO resuming gas consumption at the end of December, the thermal and industrial power customers showed encouraging consumption uplifts.

- Q4 18 thermal customer usage increased by 3% on the previous quarter (Q4 2018 increased by 5% on Q4 2017);and
- Q4 18 industrial power customer usage increased by 80% on the previous quarter (Q4 2018 increased by 12% on Q4 2017).

These increases reflect GDC management's focus on driving the industrial customer growth, during the year, to diversify and reduce the reliance on the grid power customers. In addition, an existing Thermal customer, Agrocarn, which had been connected for power consumption in the previous quarter started consuming gas for power on 2 October 2018.

The consumption levels post period end, as a result of ENEO coming back online, are:

- 7.67mmscfd to 14 January 2019
- 9.19mmscfd peak reached to date in January 2019

### **Grid Power Update**

The Company announced on 24 December 2018 that Gaz du Cameroun ("GDC") had entered into a binding term sheet on the 21 December 2018 with ENEO Cameroon SA ("ENEO") to resume gas supply to the 30MW Logbaba Power Station. Gas supply and power distribution commenced 22 December 2018. The parties are committed to executing Fully Termed Agreements and providing appropriate payment guarantees during Q1 19.

The term sheet with ENEO sets out 3-year contract term with peak delivery of 6.1mmscfd to be made available to the Logbaba station on an 80% minimum Take or Pay basis throughout the year, which equates to a minimum gas supply of 4.88mmscfd. This differs from the previous contract, which contained a seasonal minimum take or pay element of 90% during the January to June dry season and 30% during the wet season July to December. The initial gas sale price of \$6.75 per MMBtu will increase over the three-year term of the agreement by \$0.10/MMBtu on each anniversary of the effective date of the agreement.

### **Presidential Decree on Matanda Received**

GDC received the Decree signed by H.E. President Paul Biya on December 17, 2018, authorising the transfer of interest in the Matanda Production Sharing Contract ("Matanda PSC") license assigned from Glencore in early 2016. This secured GDC 75% ownership and operatorship of the Matanda PSC, adjacent to its Logbaba concession, which at 1,235 square kilometers, is over 60 times the area of the Logbaba concession.

The North Matanda offshore field contains estimated gross 2C Contingent Resources of 150bcf of recoverable gas and 6 million barrels of condensate, with an upside of 1Tcf of gas. The initial focus, however, will be onshore exploration prospects close to Logbaba gas pipeline network, where gross resource potential is estimated at 1,303bcf of gas (Mean GIIP) contained in 23 prospects and leads.

The existing GDC infrastructure, with proximity to Matanda, will allow new discoveries to be delivered to industrial users efficiently and promptly. A minimum work programme obligation of one exploration well, plus seismic reprocessing is to be completed in the first 2 years of the assignment following the Presidential Decree.

## **Outlook for 2019**

### **Grid Power**

ENEO has expressed interest in increasing power generation levels to include an additional 20MW from its Bassa Power Station in due course. This would add an additional 4mmscfd to current demand, if concluded.

Discussions continue with other IPP's who are evaluating additional power supply options to meet the electricity shortfalls that the city of Douala continues to experience. GdC is targeting agreement with at least one of these IPP's, during 2019, to kick off a new power project in Douala.

### **Non-Grid Business Development**

Whilst gas supply for grid power to ENEO and to others will always be a key strategy of the Group, the Board, as previously announced, has identified that it is important to diversify the customer base to reduce dependence on any single customer.

Rebalancing of Group customer consumption with an emphasis on non-grid remains a major driver for 2019. The considerable reserves upgrade announced in June 2018 provides the basis to seek long term sales contracts for growth of both grid and non-grid sales. The key focuses for management will be to:

- Increase Thermal consumption by actively marketing the benefits of natural gas over liquid fuels;
- Accelerate the Groups gas to power programme for Industrial Power customers;
- Leverage VOG's relationship with Naturelغاز, aimed at bringing first CNG customers online in 2019; and
- Examine potential rural energy needs using CNG as a key fuel that allows integrated and distributed power solutions for communities with no grid power access. The Group's "Energy Well" solution.

### **Industrial Power**

With ongoing power shortages in Douala, the Board expects Industrial Power to yield substantial revenues over the next 10 years for GDC. Over 30 existing and new customers have expressed interest in an industrial power solution; the GDC Industrial Power Unit. As most of these proposed power customers are already connected to GDC's gas pipeline, adding gas fired power generation at these sites would increase gas consumption with minimal downstream costs for GDC.

GDC has completed negotiations with and issued GSA's to 11 customers and signed GSA's with 4 customers. The Board expects a further 7 customers to sign in the near term. GDC is working with Altaaqa and other equipment suppliers to fast track generators for customers. The target is to have a number of Industrial Power customers online by end of 2019, consuming over 4.5mmscfd of gas with no seasonality at prices of around US\$13/MMBtu.

### **CNG Development**

On 26 June 2018 the Company announced an agreement to partner with Naturelغاز Sanayi ve Ticaret A.S. ("Naturelغاز") on CNG projects. Naturelغاز is Europe's largest CNG supplier and distributor and brings valuable expertise within this field to support GDC. The partnership will provide CNG infrastructure for customers in and around Douala.

Marketing studies by GDC and Naturelغاز have concluded that five types of customers would use CNG in Cameroon; thermal, off-grid power generation, commercial trucking, public transportation, and domestic transportation. The studies indicate the near-term potential of

the CNG market, within a 60 km radius of the Logbaba facilities, is 2mmscfd thermal and 2mmscfd industrial power. To date, 20 customers have expressed interest in CNG within a 60 km radius of Douala.

Design, engineering and cost estimation has now been completed which demonstrates feasibility for an initial project to build a 2mmscfd CNG plant in Douala for CNG distribution. Negotiations with customers on offtake agreements are in progress which, on signature will enable the project to kick off.

The Board believes that CNG will compete strongly against diesel and heavy fuel oil which are currently priced in Cameroon at \$25/MMBtu and \$15/MMBtu respectively.

### **The Energy Well Concept**

Seventy four percent of the Cameroon population has access to the National Grid and 86% of the population lives within 15km of the power network. However, household electrification stands at only 23% and there are approximately 8 million rural Cameroonians who have no access to grid electricity. This situation is replicated in many African nations, where less than 10% of the rural population has access to reliable grid electricity. The average rural household in Cameroon requires about 1kWh of energy per day.

VOG is pursuing its 'Energy Well' system, utilising CNG, as the bridge between traditional hydrocarbons and renewable energy to provide a seamless, clean and reliable energy solution to regions that are currently poorly served by conventional energy sources.

GDC has teamed up with US company Blocksyste Inc on development of the Blockchain elements of Energy Wells. The Company is working with Blocksyste, Altaaqa and others to start field tests this year on the key components of the business.

### **Logbaba La-108 Insurance Claim**

The Company has now received a full independent technical analysis, by an internationally respected group, of the drilling operations on the Logbaba La-108 well in the aftermath of a drill string washout on 7th March 2017. On the basis of this work, the Company will continue to pursue the insurance claim to recover the costs associated with the event. As is normal in these situations, the outcome of the claim is not certain. The gross amount of the claim submitted is \$24.5 million.

### **Matanda**

Having received the Presidential Decree conferring title to the Matanda PSC, GDC will continue subsurface planning work for the initial drilling programme at Matanda. The Company is continuing to explore financing options for the drilling programme, including a potential farm-down of the asset, to fund further development.

### **West Medvezhye ("West Med")**

The Company has identified a number of potential buyers for the West Med Asset in Russia. Negotiations are ongoing targeting a sale in 2019.

### **OECD Instance**

Following a complaint to the Organisation for Economic Co-operation and Development ("OECD") in 2018 and various communications with the UK National Contact Point ("NCP") for promotion of the OECD Guidelines for Multinational Enterprises (the "Guidelines"), the NCP has decided, on an "Initial Assessment" that issues raised merit further examination (based on initial information from both parties). The instance was made by the association of

residents of Ndogpassi I, II and II and the Good Neighbours circle of Logmayangui in relation to the establishment and operation of the Logbaba Project in Cameroon.

The Guidelines are principles for responsible business conduct in areas including employment, human rights and the environment. While the Board and GDC both strongly believes that the Company has and has had the necessary policies and processes in place, we welcome the opportunity to engage further with the complainants to understand their concerns and to agree how we can advance together.

The Initial Assessment, once published, will be accessible on the OECD's website <https://www.gov.uk/government/publications/uk-ncp-initial-assessment-complaint-from-ahn-and-cbvl-against-victoria-oil-gas-plc-vog> . The NCP stresses in its report that its decision to examine further the claim against VOG is not a finding against the Company.

We look forward to engaging in NCP-facilitated mediation, which the Company anticipates will take place over the coming months.

Further announcements will be made as and when appropriate.

This announcement contains inside information.

**For further information, please visit [www.victoriaoilandgas.com](http://www.victoriaoilandgas.com) or contact:**

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