



# MANAGEMENT REPORT

**JV POLTAVA PETROLEUM COMPANY**  
For the reporting period from January 01 to December 31, 2022



# CONTENT

• • •

Opening remarks of the Director General	3
Description of the Company's Activities	4
Performance	5
Development Strategy	6
Liquidity and Liabilities	7
Environmental Aspects	8
Social Aspects	11
HR Policy and Labor Protection	12
Anti-Corruption and Bribery Measures	15
Risk Management	16
Research and Innovation	18
Development Prospects	21

• • •



## OPENING REMARKS OF THE DIRECTOR GENERAL

On February 24, 2022, the Russian Federation launched a full-scale military invasion of Ukraine. The situation in the country is difficult and continues to change dynamically every day. In the new realities of martial law in Ukraine, the main goals of the Company are the health and safety of employees and their families, the Company's management makes efforts to reorganize all business processes in order to adapt to existing problems and ensure the going concern of the Company. The year 2023 is expected to be another year of difficulties and challenges, but the management of JV Poltava Petroleum Company (JV PPC) continues to analyze and assess all possible risks and uncertainties of the situation in the country and carries out operational activities in full and implements a work program. Therefore, I will report primarily on the production and financial performance of 2022.

In 2022, JV PPC's gas production totaled 122.3 MMm<sup>3</sup>, oil and condensate production totaled 27.5 thousand tons, and LPG production totaled 9.4 thousand tons. The Company has reduced gas production by 38%, oil and condensate production by 34% and LPG production by 43% compared to last year, which is also due to a reduction in the drilling program. However, despite the significant uncertainty of the situation in 2022, JV PPC implemented 14 projects in accordance with the revised capital investment plan, including drilling of a new well, IG148, and sidetrack of IG141 in the Ignativske field, as well as 6 workovers of 5 wells. In parallel with drilling operations, in 2022, the Company began to use alternative opportunities for additional loading of production capacities, in particular, the processing of NGL from third-party companies is successfully carried out with the subsequent sale of the final product to consumers, negotiations are underway to conclude new contracts for the supply of raw gas to Ignativske EPF and Elizavetivske



EPF for its processing and transportation to the main gas pipelines.

With the beginning of Russia's full-scale war on the territory of Ukraine and the introduction of EU sanctions against the Russian Federation, natural gas and oil prices remain high on both the global and Ukrainian markets, which has contributed to the sale of petroleum products in 2022 at prices that exceeded 2021. Thus, gross profit has amounted to UAH 1,620.3 million, and the net financial result for 2022 is UAH 897.9 million, which is 38% higher than in 2021.

In 2022, JV PPC paid UAH 1,256.5 million of rent for the production of natural gas, oil and condensate and spent UAH 140.7 million for military assistance to the Armed Forces of Ukraine, financial and material assistance to the Territorial Defense Forces, charity and social projects. The PPC team will continue its field development plan in 2023, including finding opportunities to invest in new licenses.

Director General of JV PPC  
**Vitalii DOROHAN**



## DESCRIPTION OF THE COMPANY'S ACTIVITIES



JV Poltava Petroleum Company (hereinafter – JV PPC or the Company) is a joint Ukrainian-British venture that was established in 1994. The parent company is JKC Oil & Gas Limited.

The Company's field of activity is oil and gas exploration, production and processing. JV PPC holds six licenses for the production of hydrocarbons. The Company is one of the top 7 private companies in terms of hydrocarbon production.

Among the main principles of the Company's activities are the following: compliance with corporate and social policy, introduction of innovative technologies and best practices in the oil and gas industry of Ukraine.

JV PPC adheres to international ethical standards in its activities and fully meets the requirements of labor protection, environment and safety.



**1994**

year  
creation  
enterprises



**6**

licenses for  
production  
hydrocarbons



**Top-7**

by volumes  
mining  
hydrocarbons



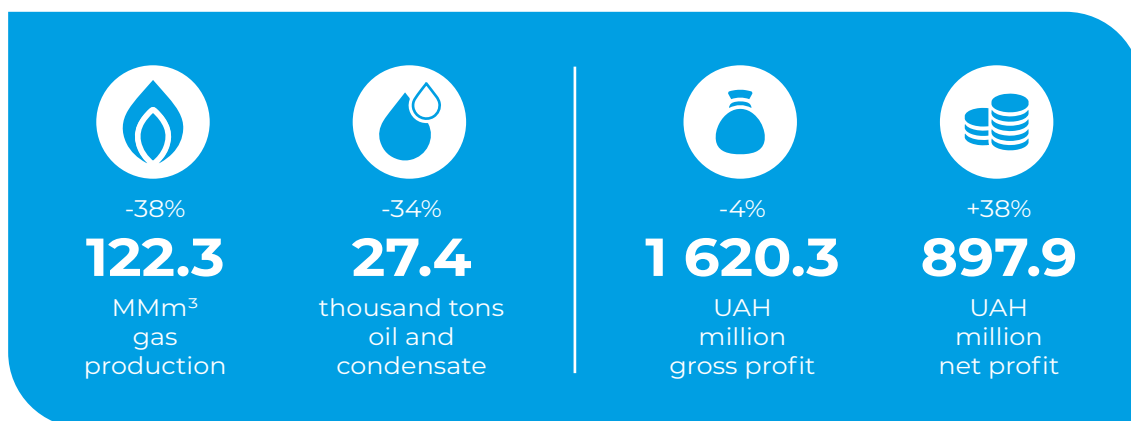
## PERFORMANCE

### PERFORMANCE FIGURES

In 2022, gas production totaled 122.3 MMm<sup>3</sup>, oil and condensate – 27.4 thousand tons, and LPG production – 9.4 thousand tons. The Company reduced gas production by 38%, oil and condensate production by 34%, and LPG production by 43%, compared to last year.

As a result of the full-scale military invasion of Ukraine by the Russian Federation on

February 24, 2022 and the declaration of martial law on the territory of the country, the Company significantly reduced the drilling and capital work program. However, despite the high uncertainty of the situation in the country in 2022, JV PPC carried out the drilling of the new well IG148 and sidetrack of IG141 in the Ignativske field, as well as 6 workovers of 5 wells.



### FINANCIAL INDICATORS

Despite the martial law in Ukraine and the colossal economic and infrastructure losses that the war causes every day, prices for oil and gas products in 2022 were high both in the global and Ukrainian markets, so the Company ends the year with quite high financial indicators.

In 2022, gross profit was amounted to UAH 1,620.3 million (2021: UAH 1,693.5 million) according to the financial statements of JV PPC prepared in accordance with IFRS standards, which is only 4% lower than gross profit for 2021. Net profit for 2022 was UAH 897.9 million (2021: UAH 649.7 million), which was 38%

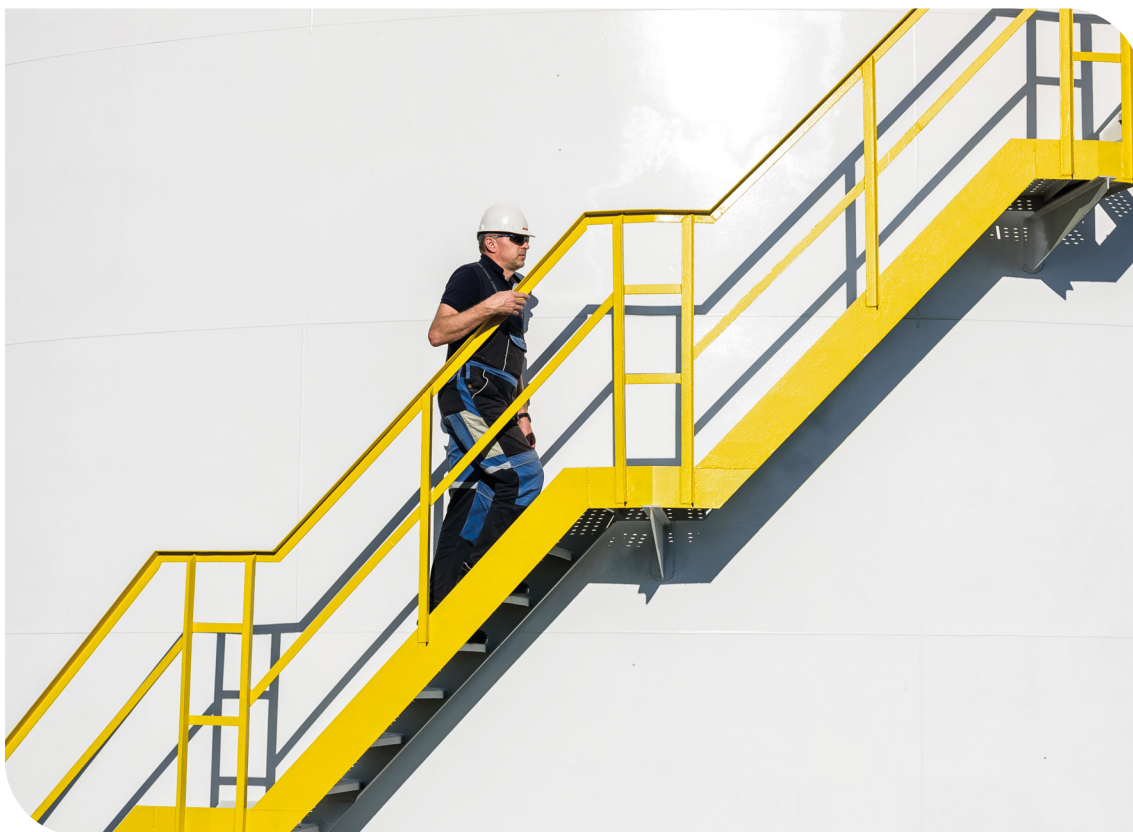
higher than in 2021. As at December 31, 2022, current assets exceeded current liabilities by UAH 915.5 million.

The cash balance at the end of 2022 was UAH 955.2 million (2021: UAH 953.9 million). Net cash flow from operating activities as at December 31, 2022 was UAH 481.8 million.

In 2022, the Company paid out dividends in the amount of UAH 487.1 million and spent UAH 130.6 million for capital investments.



## DEVELOPMENT STRATEGY



The full-scale invasion of the Russian Federation on the territory of Ukraine in February 2022, as well as a significant tax burden due to an increase in rent payments for gas production, made adjustments to the implementation of the approved capital investment plan for 2022. But despite these factors, 14 projects were successfully implemented in 2022 in accordance with the capital investment plan.

The main task for the Company in these conditions was to preserve assets, reduce production losses and maintain hydrocarbon production at the highest possible level.

In addition, in 2022, a separate working group, working on finding new business opportunities for the Company, continued its activities.



The implementation of strategic goals was carried out by considering the possibilities of purchasing new licenses through transparent mechanisms of online auctions and the development of current licenses in Ukraine.



## LIQUIDITY AND LIABILITIES



During 2022, the Company independently ensured the management and control of cash flows, without resorting to external financing. The management of JV PPC approved the revised budget for the second half of 2022, taking into account the changed strategy of the company as a result of the full-scale invasion of the Russian Federation on the territory of Ukraine. The investment program and operating expenses were reduced.

In order to ensure liquidity, JV PPC monitors accounts receivable and payable, maintaining them at the proper level. The Company avoids pre-payment settlements with contractors as much as possible. The Company's sales policy is implemented on the principle of prepayment.

In addition, in 2022, the Company increased the liquidity of its own funds by terminating a bank deposit and receiving funds directly to the Company's current account.

As of December 31, 2022, current assets exceeded current liabilities by UAH 915,492 thousand.



The Company complies with the terms of special permits for the use of mineral resources and has no open questions regarding their implementation.

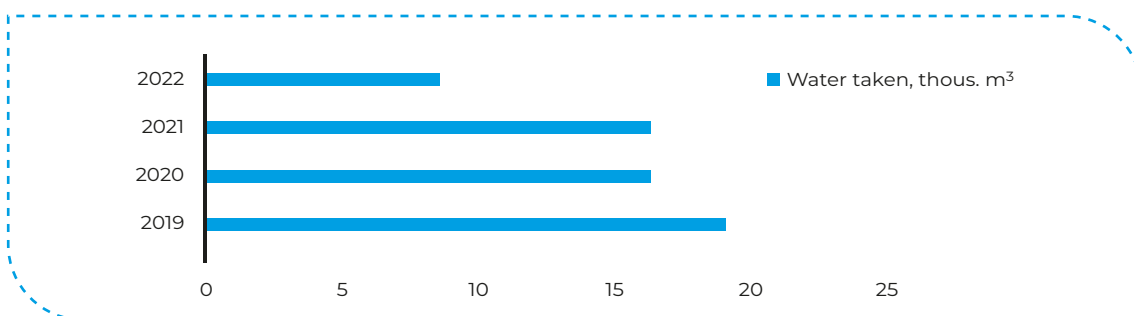


## ENVIRONMENTAL ASPECTS

Environmental safety of production is one of the Company's values and permeates all business chains – from geological

study of licensed areas to production of hydrocarbons and their sale.

### WATER USE



*During 2022, the Company reduced the volume of underground water intake.*

### Composition of the underground and surface water quality control network on licensed areas of PPC JV

**53**

total number of observation points

**17**

artesian wells and wells in localities where activities are carried out

**26**

observation wells

**10**

monitoring points for the state of surface waters (rivers, springs, ponds) on the licensed areas of JV PPC

**11**

indicators of hydrochemical research





### Composition of the soil quality control network on licensed areas of PPC JV

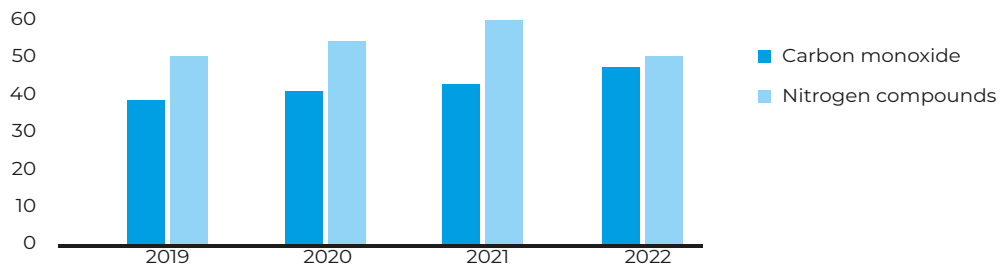
<b>49</b>	total number of observation points
<b>18</b>	indicators of agrochemical and agrophysical research
<b>3</b>	indicators of toxicological research
<b>1</b>	radiological control indicator

...

### Composition of the atmospheric air quality control network on licensed areas of JV PPC

<b>31</b>	total number of observation points
<b>4</b>	research indicators

*In addition, the Company also reduced its CO2 emissions in 2022*

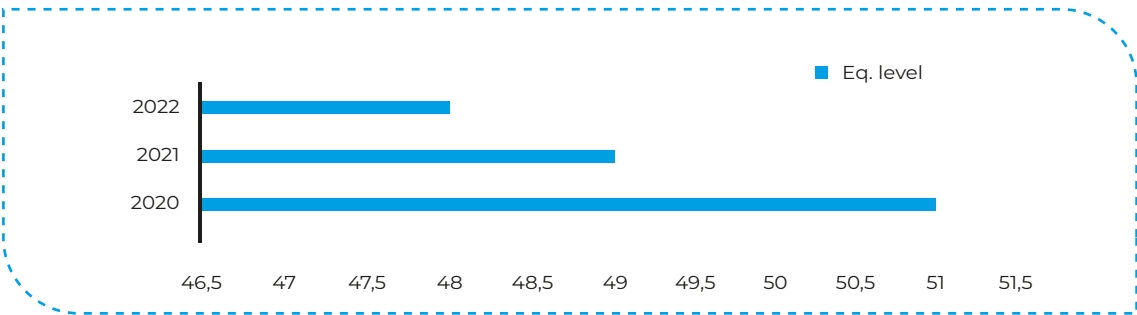


...



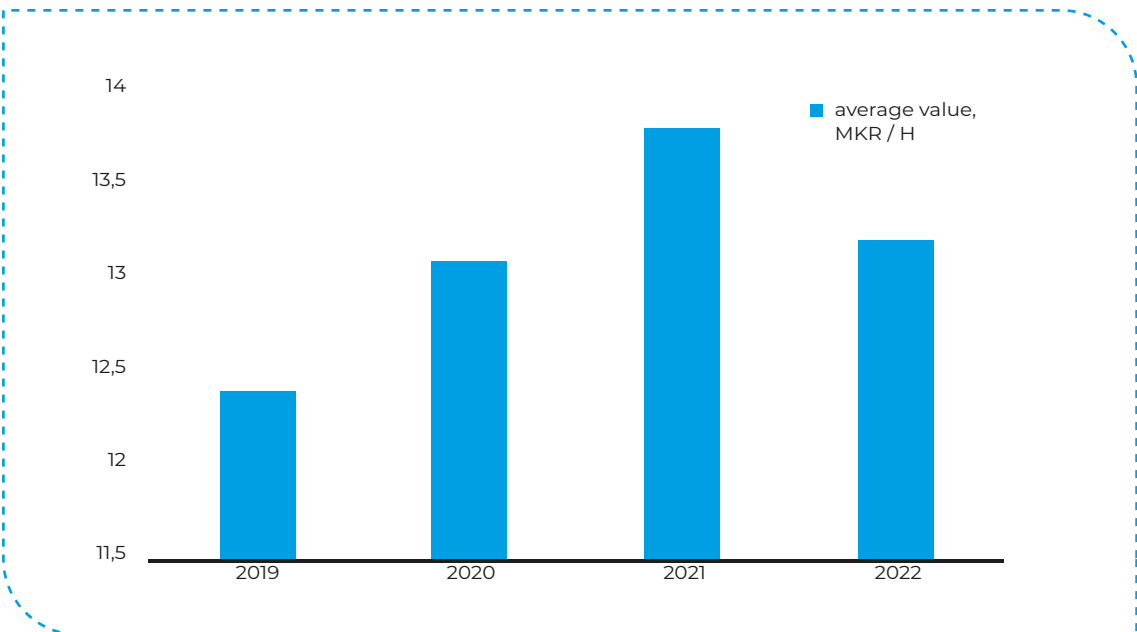
**Composition of the noise and infrasound monitoring network at the production facilities of JV PPC**  
**16** total number of observation points

*Dynamics of the equivalent noise load level within the established standards*



**Composition of the radiation monitoring network**  
**846** total number of observation points

*Average value of the power of the external gamma radiation dose absorbed in the air within the average value for Poltava Region*





## SOCIAL ASPECTS



Social responsibility is traditionally one of the main priorities for Poltava Gas and Oil Company. Support for local communities and active participation in the sustainable development of Poltava Region, as the region where the Company conducts its production activities, and Ukraine as a whole, in 2022 occupied an important place in the activities of PPC.

### **In 2022, JV Poltava Petroleum Company implemented the following social and charitable projects:**

- ✓ Purchased an apartment for the medical staff of the family medicine outpatient clinic in the Nekhvoroshcha Community;
- ✓ Financed the registration of urban planning documentation for the Andriivka Lyceum;
- ✓ Provided assistance for the arrangement of temporary residence places for refugees placed in Novi Sanzhary, Nekhvoroshcha, Mashivka Communities in the form of payment for energy carriers, purchase of food, fuel, hygiene products and baby food;
- ✓ Provided material and financial assistance to the Armed Forces of Ukraine and Territorial Defense Forces.

Moreover, the Company provided support to local educational institutions and budget institutions of territorial communities.

In total, the following amounts were spent on charitable and social projects in 2022: UAH 1.2 million - to support territorial communities, UAH 139.5 million – to support the Armed Forces of Ukraine and Territorial Defense Forces.

Starting from January 01, 2018, part of the rent charged for the activities of JV PPC is sent to local budgets of communities at the location of the Company's production facilities.

In 2022, JV PPC paid UAH 1,256.5 million of rent for the production of natural gas, oil and condensate. Part of the funds received by local communities may be used to repair roads, educational and medical institutions, as well as to implement other social projects.



# HR POLICY AND LABOR PROTECTION

## HR POLICY

Our employees are the greatest value of the Company. Creating decent and safe working conditions, ensuring the protection and support of its employees are key priorities for the development of JV PPC's human capital.

The Company strives to be the best employer and become a place for professional implementation of the most talented and highly qualified personnel.

In addition to timely payment of wages, provision of basic annual leave, preservation of wages for the duration of employees' performance of state and public duties and other guarantees of labor legislation, PPC JV conducts periodic certification of workplaces according to working conditions, which enables employees to provide additional payments, additional leave and confirm preferential length of service for assigning pensions.

The Company provides equal opportunities and conditions for career and professional development of all employees, providing an opportunity to attend trainings, professional seminars and trainings, conducts events to strengthen and develop the Company's corporate culture.

The Company pays considerable attention to social support for employees. A health insurance program has been introduced for all our employees. Decent working conditions have been created at the workplace, which are constantly improving, taking into account safety factors, industrial, sanitary and aesthetic factors. PPC JV respects human rights and prohibits any discrimination.

As of December 31, 2022, JV PPC employed 177 employees at their main

place of work. The gender principle is dominated by men, which is associated with the peculiarities and specifics of the industry. Currently, 12% of all employees are women. The Company has a staff motivation system and KPIs.

## OCCUPATIONAL HEALTH & INDUSTRIAL SAFETY

The Company adheres to corporate standards, Occupational Health and Safety Management System (OHSMS), industrial safety by adhering to specific principles, implementing actions and continuously improving the state of occupational health, industrial safety and environmental protection in its daily activities.

Every year, the Company adapts the Annual Management Plan for Occupational Health, Industrial Safety and Environmental Protection, developed by employees of the Occupational Health and Safety Department with the involvement of leading specialists of the Company and approved by the Director General.

The Company has a policy banning the use of drugs and alcohol in industrial and office premises, the violation of which was not recorded in 2022.

Employees of the Labor Protection and Industrial Safety Department, headed by its Head, organize the implementation of programs, processes on labor protection, control and improve the system of labor protection management (OHSMS) and environmental protection in accordance with the production conditions and regulatory legal acts in force in the state.

PPC JV has an updated health and environmental management system



created according to OHSAS 45000, ISO 14001 and ISO 9000 standards.

All new employees after successfully passing the probationary period have health insurance at the Company's expense.

One of the main and important areas of work of the Occupational Health and

Safety Department is the development and introduction of a positive safety culture.

It includes continuous communication, improved transparency (reporting on potentially dangerous events, all incidents and accidents), increased positive motivation, training, control, and behavior and safety motivation programs.



**In 2022, the Company carried out a number of measures aimed at improving the level of occupational safety and awareness of the safety rules of employees in effect on the corporate and national level:**



The Company developed, approved and implemented the Methodological Recommendations on Personnel Actions During Martial Law, which include:

- *General provisions on the actions of personnel during martial law;*
- *Tips for preparing for martial law;*
- *Rules of conduct during shelling or bombing;*
- *Rules of conduct during small arms attacks;*
- *Procedure for receiving an air alarm signal (including production, Kyiv and Poltava offices);*
- *Rules for the use of water during martial law;*
- *Procedure for actions during a nuclear threat;*
- *First aid for white phosphorus damage;*
- *First aid for chemical damage;*
- *General rules for providing medical care;*
- *Measures to ensure the safety of health and life of employees in an emergency or war at the Company's facilities;*
- *Work (action) plan for emergency shutdown of fields and wells in case of a natural, man-made, or military threat.*



Labor protection audits were conducted with the involvement of leading specialists of structural divisions, including contractors.



Assessment of industrial risks in the performance of work and maintenance of production in the oil and gas industry for each structural division of the Company was revised.



During the year, training seminars and training courses were held in an online format for managers and employees in accordance with the training matrix in the following areas:

- *General issues of labor protection;*
- *Safety rules in the oil and gas industry of Ukraine;*
- *Labor protection rules for the operation of pressure equipment;*
- *Labor protection rules for the operation of lifting cranes, lifting devices and related equipment;*
- *Labor protection rules when performing work at height;*
- *Labor protection rules when working with tools and devices;*
- *Rules of labor protection during loading and unloading operations;*
- *Rules of labor protection in road transport;*
- *Labor protection rules during the operation of loaders;*
- *Rules for safe operation of electrical installations of consumers;*
- *Performing hazardous operations.*

**All measures are aimed at ensuring and creating safe working conditions for employees in each structural division and at the work sites.**

**Employee health and safety and environmental protection are among the priority areas for the development of JV PPC.**



## ANTI-CORRUPTION AND BRIBERY MEASURES



JV PPC has a policy in the field of anti-corruption and bribery. This policy implies conducting an honest business, without resorting to corruption and bribery for unfair benefits. The relevant text has been brought to the attention of all employees of the Company. The text can be found on the website at:

<http://www.ppc.net.ua/wp-content/uploads/2018/01/Antykorruptsyonnaya-polytyka-RU-UKR-ENG.pdf>

The main principle of this policy is zero tolerance for bribery and corruption, both within the team and in relations with government agencies and business partners. The Company takes all appropriate measures to prevent violations of the current legislation and its own anti-corruption and bribery policy.

The Company constantly monitors the effectiveness and sufficiency of measures aimed at reducing corruption risks and improves its internal procedures. In particular, in 2022, they updated the policy in the field of combating corruption and bribery, as well as developed and implemented electronic forms of internal accounting of gifts and hospitality received and provided.

In accordance with recognized corporate governance practices and in order to strengthen the Company's control functions, the Internal Audit Service was restored in 2022 under the guidance of an experienced specialist.

As a result of the process of systematization and formalization of procedures and measures aimed at preventing corruption and bribery, the Company's Anti-Corruption Program was approved in November 2022.



## RISK MANAGEMENT



The Company has implemented a continuous and comprehensive risk management system. There is a working group responsible for identifying existing risks, assessing them, and developing plans to reduce these risks and minimize possible consequences. The local committee constantly monitors the implementation of measures to overcome identified risks. Information on the most material or critical risks is provided to the Risk Management Committee of the parent company JKK Oil & Gas Limited.

Among the main areas of risk management at the level of JV PPC are those related to inventory management and increased production, liquidity provision, environmental and operational risks.

Since the invasion of Ukraine by Russian troops on February 24, 2022 and the subsequent full-scale war, the Company has faced significant risks of uncertainty, including the risk of military action.

### Significant risks include the following:

- ✓ Loss of control over the production base in the event of occupation of the territory;
- ✓ Loss of finished products or production stocks;
- ✓ Absence or loss of employees, which may lead to disruption of business processes;
- ✓ Violation of logistics routes and inability to ship finished products;
- ✓ Potential cyberattack, data loss and, accordingly, further disruption of business processes;
- ✓ Temporary unavailability of banking services (processing of payment transactions).





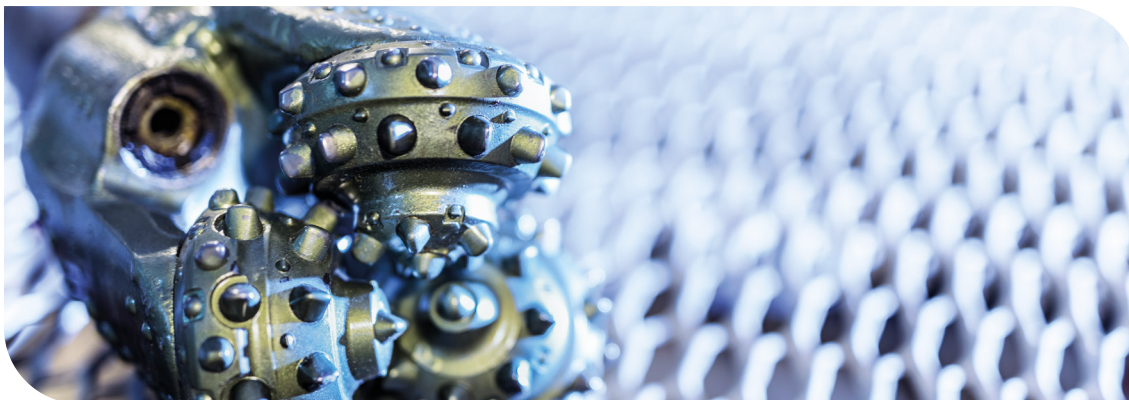
**The Company's Management cannot influence most of these risks, but has carried out a number of measures to minimize the impact of the above risk factors, in particular:**

- ✓ Personnel were optimized at the production base and production processes were managed remotely and in a sufficiently remote area from production;
- ✓ Regular training of employees on behavior and protection during the war period is conducted;
- ✓ The Company tries to sell the entire volume of oil from production as quickly as possible and minimize product reserves at the end of each day;
- ✓ In case of accumulation of insignificant oil residues, the products are stored in the most remote locations from production;
- ✓ All payments with customers continue to be made subject to 100% prepayment;
- ✓ The Company has increased the liquidity of its own funds by terminating the bank deposit and receiving funds directly to the Company's current account;
- ✓ Additional data protection measures have been implemented and detailed plans have been developed to respond in case of possible cyber attacks.

As of the date of approval of the report, the Company's assets were not damaged, and stable production of natural gas and oil continues.



## RESEARCH AND INNOVATION



The use of the latest technologies and the introduction of global best practices into production activities have a positive impact on production and financial performance. Historically, Poltava Petroleum Company was one of the first private mining companies in Ukraine to use advanced drilling technologies, production intensification and production equipment when operating at its licensed sites.



### EXPLORATION AND SEISMOLOGICAL STUDIES

**In 2022, the Company started work on updating the 3D geological model of the Novomykolaivka complex field group using Petrel software.**

The works include revision of geophysical survey data in wells, reinterpretation of 3D seismic survey data, and updating of dynamic models of Ignativske and Movchanivske fields, taking into account the results of drilling and workovers for 2021-2022.

Based on the results of the work, it is expected to determine promising areas for further detailing the geological structure and drilling exploration wells.

JV PPC has started and continues to create a digital database of geological information, which will simplify and speed up the decision-making process for further work on licensed sites.

Works on geological and economic assessment of hydrocarbon reserves in Novomykolaivske, Ignativske and Movchanivske fields (as of January 01, 2022) continue and works on geological and economic assessment of hydrocarbon reserves in Rudenkivske field (as of January 01, 2023) have begun.



### **DRILLING AND WORKOVERS**

In 2022, the Company drilled a new well IG148 and a sidetrack of IG141 at the Ignativske field. As a result of the test, a commercial inflow of hydrocarbons was obtained.

During 2022, JV PPC carried out 6 workovers at the Ignativske, Movchanivske fields and Rudenkivske fields, as a result of which hydrocarbon production was also increased.



### **CAPITAL CONSTRUCTION AND MODERNIZATION**

In 2022, PPC purchased an additional compressor unit (K4000) at Elizavetivka GPF to increase the efficiency of natural gas extraction from wells at the Elizavetivske field.

New two-stage compressor unit (with Caterpillar 3516j engine and Ariel JGT/4 compressor) manufactured by the American company Enerflex Ltd. It will ensure intensive well production by reducing wellhead pressures.



## LPG Production and Gas Processing

### Liquefied Hydrocarbon Deep Extraction Unit:

JV PPC was the first private company to build the gas refrigeration plant in order to recover propane and butane liquids in 2011. In particular, during 2020-2021, it upgraded the LPG plant, which made it possible to increase the efficiency of extracting propane-butane from natural gas.

The technology manufacturer is the Canadian company Propak Systems.

In addition, the Company has its own laboratory for analyzing liquefied gas, and has also received confirmation of compliance of its own liquefied gas with the European standard EN 589:2017.

### Control and Management System Automation:

In 2022, data transmission from wellheads and manifolds to Ignativka EPF was automated, and the list of wells from which data was transmitted

automatically was expanded. An automated process control system was implemented on V-110 and V-100 separators and a gas lift control system.



### Laboratory:

The testing laboratory received a certificate of accreditation from the National Accreditation Agency of Ukraine (hereinafter – NAAU) in the field of activity “Testing of Liquefied Petroleum Gas by Physical and Chemical Parameters” in accordance with the requirements of DSTU ISO/IEC 17025:2017

During 2022, the laboratory successfully conducted tests and assessed the compliance of samples of liquefied gas produced by PPC JV with the requirements of DSTU EN 589:2017 Liquefied Petroleum Gas. Technical Requirements and Control Methods.

The testing laboratory of JV PPC has the right to check the quality of liquefied gas

in accordance with the indicators of the Ukrainian standard, which simultaneously meets the requirements of the European standard, and issue quality passports using national accreditation marks. This meets the requirements of the Technical Regulations on Requirements for Liquefied Gas for Road Transport, Municipal Consumption and Industrial Purposes.

On January 25, 2022, the laboratory updated its accreditation certificate in accordance with the requirements of DSTU EN ISO/IEC 17025:2019 regarding tests of liquefied petroleum gas for physical and chemical parameters. This makes it possible to continue conducting research and issuing quality passports using national accreditation marks.



## DEVELOPMENT PROSPECTS



The Company's strategic priorities are to ensure financial and operational stability, for this purpose, the Company has strengthened risk control and introduced an approach to project ranking. In connection with the beginning of a full-scale war between Russia and Ukraine, the investment and work program has been revised since March 2022.

However, despite the high uncertainty of the situation in the country, JV PPC drilled a new well IG148 and a sidetrack of IG141 of the Ignativske field in 2022, and performed 6 workovers of 5 wells.

In parallel with drilling operations, the Company began to use alternative opportunities for additional loading of production capacities, in particular, the processing of NGL from third-party companies is successfully carried out with the subsequent sale of the final product to consumers, negotiations are underway to conclude new contracts for the supply of raw gas to Ignativske EPF and Elizavetivske GPF for its processing and transportation to the main gas pipelines.

Areas of additional services are actively developing, namely auxiliary work on wells of third-party organizations using logging units (Slick Line), performing work with crane and special equipment, etc.

JV PPC plans to drill 2 new wells in the Ignativske and Movchanivske fields, 1 sidetrack and carry out 3 workovers in 2023.



In addition, a separate working group, which is working on finding new business opportunities for the Company, continues its activities. The implementation of these goals is carried out by considering the possibilities of purchasing new licenses through transparent mechanisms of online auctions and the development of current licenses in Ukraine.

Since the Russian invasion of Ukraine and the outbreak of a full-scale war, natural gas prices in Europe have remained high due to the reduction of Russian gas supplies to a minimum record level and the suspension of its supply to a number of European countries. World oil prices also increased due to the introduction of a partial EU embargo on Russian oil and a decline in world reserves. Accordingly, the high level of gas and oil prices remained on the Ukrainian market during 2022.

According to the results of financial indicators for 2022, the Company sold its products under the revised budget: the average price of gas sold was UAH 31,115 / thous. cub. m (including VAT), which was 114% higher than the actual sale price in 2021 (UAH 14,524 / thous. cub. m) (including VAT)), the average price of oil-condensate sold was UAH 20,448 / ton (including VAT), was 13% higher than the actual sale price in 2021 (UAH 18,164 / ton (including VAT)).

In the approved budget for 2023, the projected average gas price in 2023 is UAH 26,906 / thous. cub. m (including VAT). The target price for oil-condensate is UAH 24,993 / ton (including VAT), the target price for liquefied propane-butane is UAH 41,501 / ton (including VAT).

The Company's assets have not been damaged, and stable production of natural gas and oil continues. Based on the Company's current management forecasts, the Company is expected to continue generating revenue and positive cash flows over the next 12 months.

In addition, based on the above estimates, management believes that the Company has sufficient resources to continue operation on a going concern. In addition, JV PPC is considering opportunities for investment in new licenses.