

ANNUAL OPERATIONS REPORT 2017

PetroSeychelles

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INTRODUCTION

Under Section 36 of the Public Enterprise Monitoring Commission (PEMC) Act 2013, PetroSeychelles is required to submit an annual report on its operations to the Commission. This document presents a concise account of the PetroSeychelles operations for 2017 to fulfill this reporting obligation. Financial reports are submitted to PEMC monthly and so this report does not include such details.

The report has been structured under five main headings. Following this introductory section, a section on the Establishment documents the main administrative issues that have affected the company. This is followed by two sections documenting the core activities of PetroSeychelles namely Exploration activities and Promotion activities ending with a Collaboration section on the projects undertaken in collaboration with various Governmental Organisations.

In summary 2017 was a productive year for PetroSeychelles albeit a bit quiet where upstream activities were concerned. Interest in the prospectivity of the Seychelles EEZ remained high with companies holding licenses propelling their exploration efforts forward with new surveys and reprocessing old data, as well as new companies applying for Petroleum Agreements. PetroSeychelles maintained a strong presence in the international oil and gas arena by attending key petroleum conventions. Several projects, beneficial to the country as a whole, were completed or started in collaboration with various Governmental bodies.

ESTABLISHMENT

This section of the report summarizes the main administrative activities and issues that have affected the company as an during 2017.

Staff Movement

- Following the retirement of the ex CEO, Mr. Eddy belle, Mr. Patrick Joseph, previously Exploration Manager, was appointed as CEO by the President of the Republic. Mr. Joseph assumed the role effective 1st March 2017.
- On completion of 6 months probationary period, the newly employed accountant, Mr. Lawson Ally, was confirmed in the post on 1st March 2017.

Organisation Structure

The new CEO has proposed a new organization structure to help the company more effectively deliver on its mandates. This new structure, illustrated below has been submitted for board approval. The main change being proposed is in the creation of a new section to handle all licensing documentation and records. This has become necessary due to the increased reporting requirements mainly associated with the Seychelles' endeavor to become an EITI compliant country. PetroSeychelles is also on the EITI multi-stakeholder group (MSG) and during 2017 participated in ensuring the successful completion of the second EITI report.

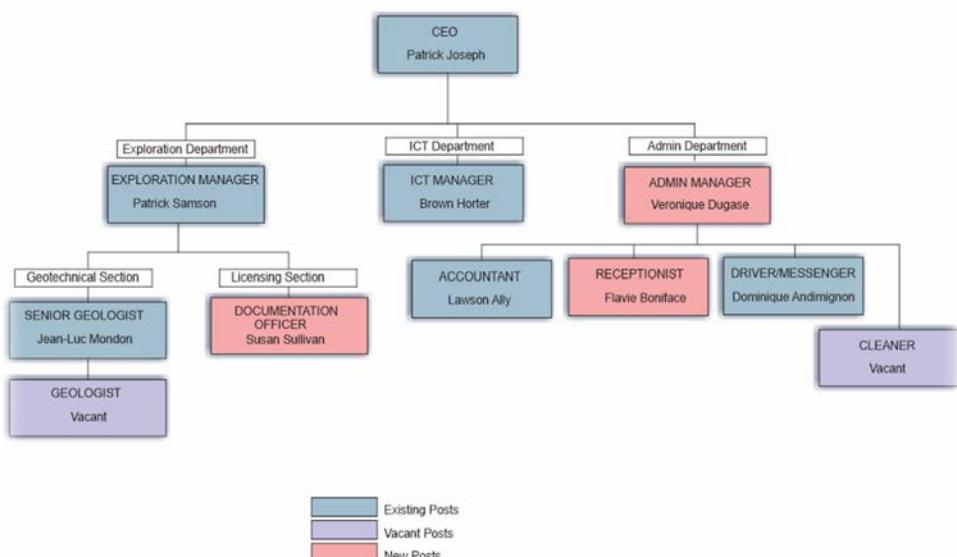


Figure 1. Proposed organisation structure for PetroSeychelles

Training

Staff development ranks highly on PetroSeychelles' agenda and training is both encouraged and prescribed where necessary. During 2017 the following training programs were undertaken by some members of staff:

- The company accountant started studying ACCA modules at the Guy Morel Institute
- The Admin Officer undertook training in Human Resources Management
- The Cleaner undertook training in Customer Service with the aim of being promoted to Receptionist
- In house, on the job training on seismic interpretation and GIS software continued.

Training will continue in 2018 and an amount of SR 157,104 thousand has been budgeted for this purpose.

Upstream Petroleum Policy

PetroSeychelles is spearheading the development of a national Upstream Petroleum Policy. The company is being assisted in this task by the U.S. State Department's Bureau of Energy Resources (ENR) and the U.S. Commerce Department's Commercial Law Development Program (CLDP) under the U.S Energy Governance Capacity Initiative (EGCI) program.

The Upstream Petroleum Policy aims at promoting efficient and safe petroleum operations and helping manage Seychelles' petroleum resources in an environmentally responsible, transparent manner to ensure equitable benefits for the people of Seychelles and create lasting value to society.

During 2017, a first draft of the policy was completed and stakeholder consultations started in the form of a workshop facilitated by CLDP in February. Stakeholders from all concerned sectors attended the workshop and it is expected that their concerns and contributions will help guide the development of the second draft.

EXPLORATION ACTIVITIES

Although there were some indications during the year that OPEC members were committed to finding ways of controlling production to help bring the crude price up, the sustained low oil price, mainly due to ongoing shale oil production in the US, meant that oil and gas companies continued to delay investment in exploration projects, especially so in frontier areas like the Seychelles. The 'doldrums' status remained throughout the year although PetroSeychelles did process a new application for Petroleum Agreements and finalized negotiations for a new speculative multi-client 2D regional seismic survey and a trial Density Mapping study.

Licensing Status

Figure 1 below shows the licensing status at the start of the year. Two companies held licenses. These were Afren, which held a Petroleum Agreement and JOGMEC which held an Exploration License. In June 2017, the Afren agreement was terminated due to the company breaching several terms of the agreement while in the process of going into administration following financial mismanagement issues and operational difficulties.

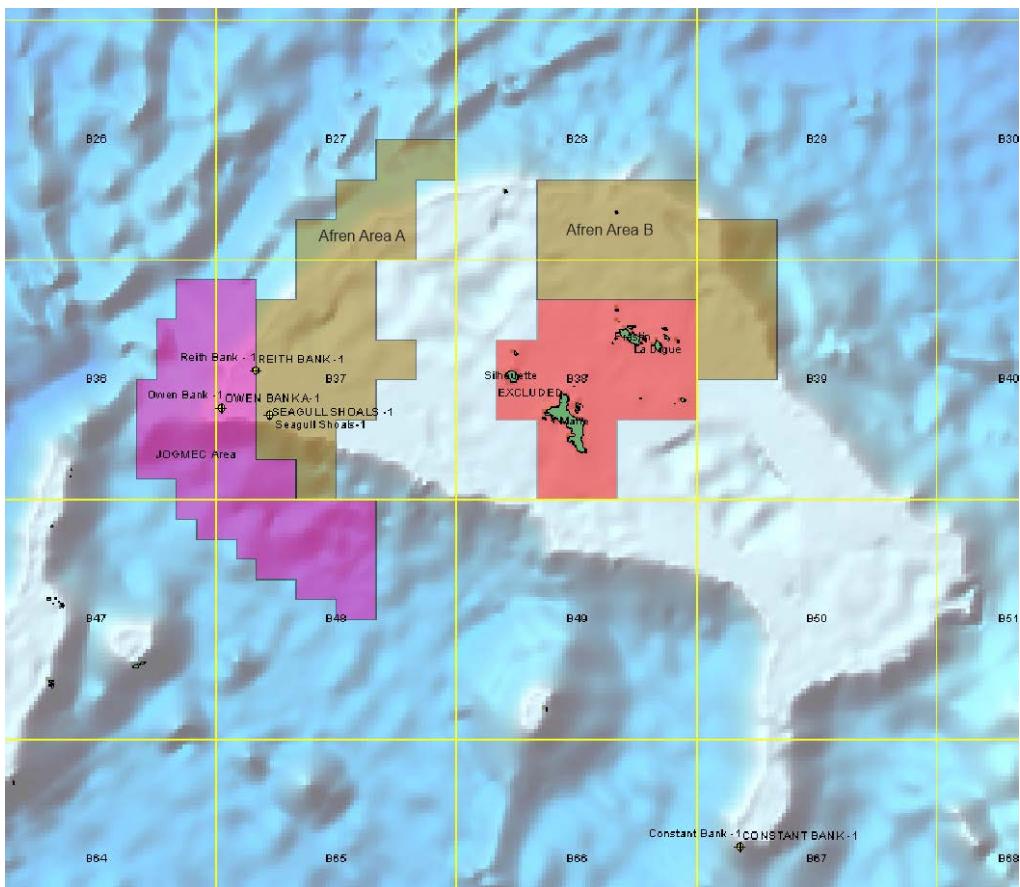


Figure 2. Licensing status at the start of 2017

By the end of the year the licensing status was as shown in figure 2 below. JOGMEC was the only active company and following the termination of the Afren agreement, Sub-Saharan Resources Limited, an Australian based company submitted applications for the two areas originally held by Afren. At the end of the year the applications were at an advanced stage of being considered under the Open File licensing Initiative.

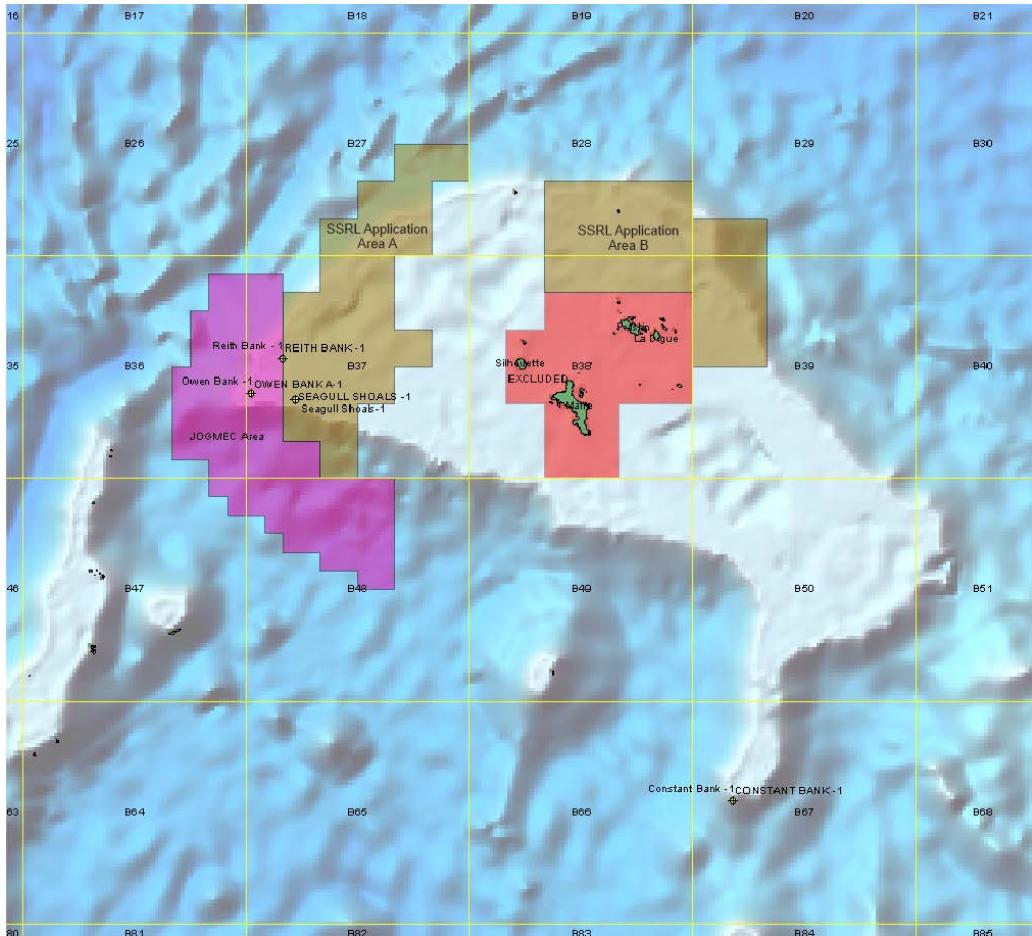


Figure 3. Licensing status at the end of 2017

JOGMEC

Jogmec holds an exploration licence and is carrying out geotechnical work jointly with PetroSeychelles to ascertain the prospective of their license area. JOGMEC has undertaken new 2D seismic data acquisition and interpretation and also reprocessed existing data. They have also undertaken satellite seep surveys. The results of their activities so far has demonstrated several leads accompanied by repeatable seeps identified on satellite data. This indicates an active petroleum system beneath the JOGMEC acreage. Quarterly meetings were organised both in Tokyo and Seychelles including a joint promotional meeting in Tokyo where PetroSeychelles and JOGMEC presented the findings to Japanese E&P companies with the aim of getting one of the commercial companies to take up the Japanese acreage under a petroleum agreement. The JOGMEC exploration licence will end in February 2018 and it is hoped that the Japanese companies will find the area prospective enough for them to invest in further exploration work.

SSRL Application

Following the termination of the Afren agreement the area became vacant and Sub-Saharan Resources Ltd, an Australian based company submitted an application for the two areas (see figure 3). Due diligence on SSRL undertaken by the Attorney General's Office and the Ministry of Finance concluded that the company was legally and financially qualified to be accepted as an applicant for a petroleum agreement. Under the Open File licensing scheme, other companies were given the option of submitting competing bids for the area. The 90 days period within which such competing bids can be accepted will end in January 2018.

CGG Multi-client seismic survey

CGG, a reputable seismic contractor is proposing to acquire regional seismic data in the East Africa region including Madagascar, Mozambique, Tanzania and Seychelles. CGG initiated negotiations with PetroSeychelles to be granted a 2 year exploration license to acquire 5,347 km of 2D seismic data on a multi-client basis. The data will be the property of the Republic of Seychelles but Seychelles issue CGG a license to market the data under a revenue sharing scheme. The terms of this marketing license is still under negotiation. Petro Seychelles is getting assistance from the Attorney General's office with the legal aspects of this agreement. The agreement nevertheless contains financial terms that will allow PetroSeychelles to benefit even from early licensing of the data to third parties. The geological information gained from the new survey will also enhance the understanding of the geological evolution of the area, which will help greatly in evaluating the prospectivity of the EEZ. It is expected that the agreement will be signed early in 2018. Figure 4 shows the proposed survey lines for the CGG survey.

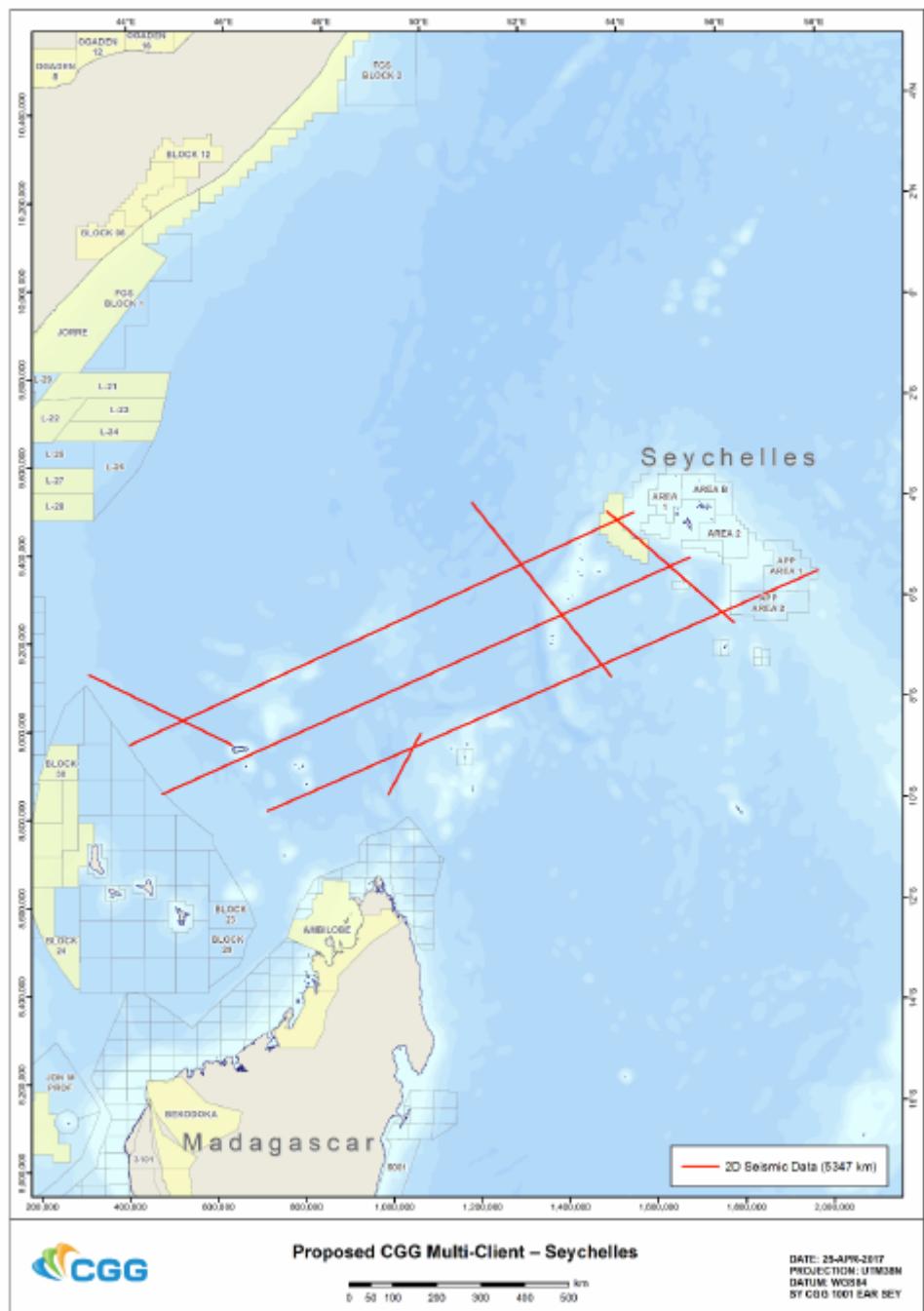


Figure 4. Proposed CGG 2D multi-client survey

GeoApplications Test Study

GeoApplications is a new geophysical service company that has developed a new technique based on analysis of variations in the geoid to measure density variations in the subsurface with the aim of identifying sedimentary basin areas. This technology is called Density Mapping Technology (DMT). GeoApplications approached PetroSeychelles through the Seychelles investment consultant, Mr. Gwilym Sicobo, for Geo Applications to use the DMT technology to evaluate the prospectivity of an area within the Seychelles EEZ. PetroSeychelles agreed to allow GeoApplications to undertake the study at no cost to PetroSeychelles. An MOU to cover the study was prepared and following vetting by the Attorney General's Office, was signed. The project will be started in 2018.

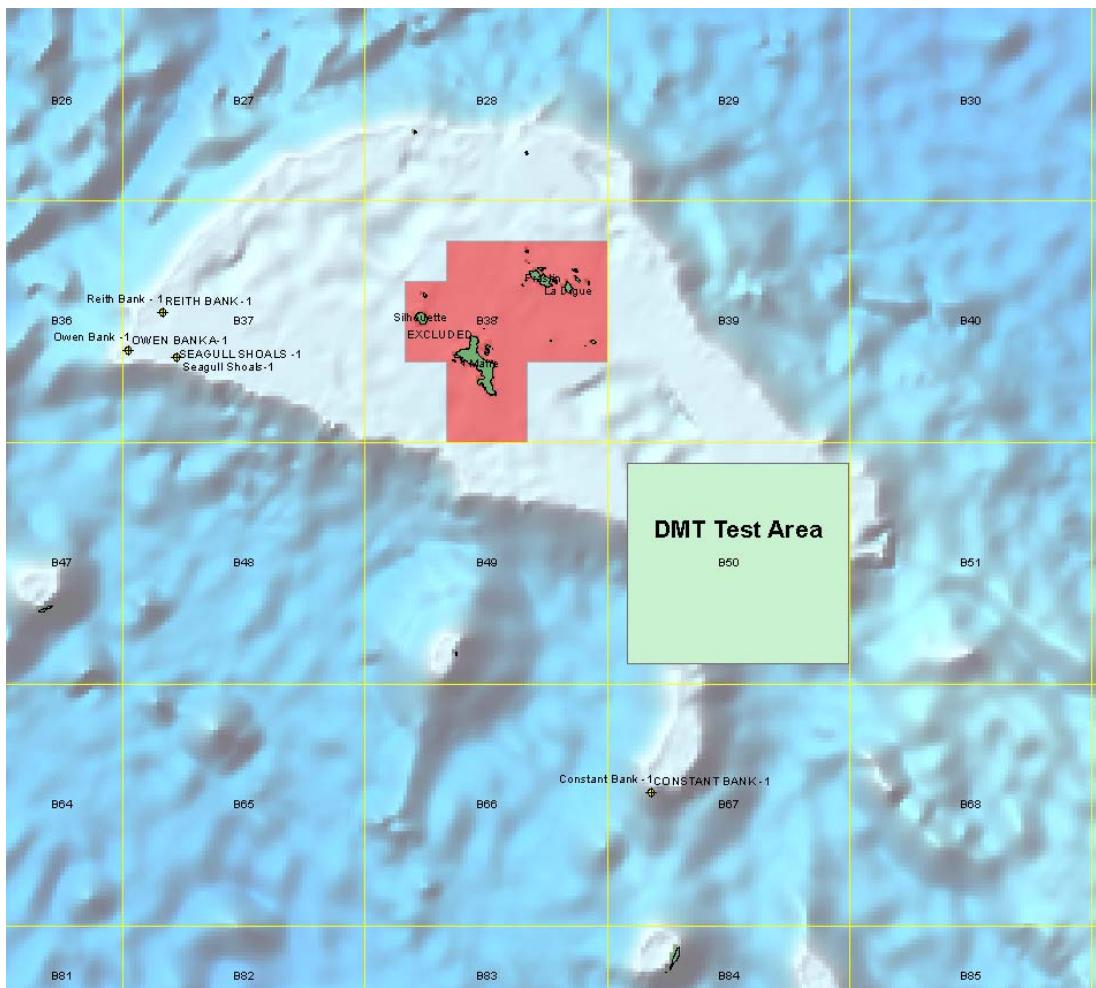


Figure 5. GeoApplications DMT test area

PROMOTION ACTIVITIES

One of the key responsibilities of PetroSeychelles, is promoting the hydrocarbon potential of the Seychelles EEZ to international oil and gas companies. This responsibility is best met through participation in oil and gas conferences and conventions where technical presentations are delivered and data displayed in booths. These fora also enable one on one discussions with oil company representatives and this is normally the catalyst that encourages further discussions that can lead to applications for petroleum agreements. During 2017 PetroSeychelles participated in two major oil and gas conferences; these were the American Association of Petroleum geologists (AAPG) International conference and Exhibition (ICE) held in London in mid-October and the Africa Oil Week convention held in Cape Town, South Africa in late October.

AAPG ICE

PetroSeychelles participated in the AAPG ICE which was held between the 15th and 18th April 2017 in London. The company presented promotional materials in a booth in the International Pavilion section of the exhibition. Several oil company and service company representatives visited the booth and held discussions with the PetroSeychelles representatives.



Figure 6. PetroSeychelles Senior Geologist manning the AAPG ICE booth in London

Africa Oil Week

PetroSeychelles participated in the Africa Oil Week (AOW) convention held in Cape Town between 23rd and 27th October 2017. This conference focusses on Africa oil and gas opportunities and is seen by PetroSeychelles as one of the best fora for promoting the prospectivity of the country.



Figure 7. PetroSeychelles representatives manning the AOW booth

The PetroSeychelles CEO was also invited to participate in a high level panel discussion on "emerging opportunities in Africa Upstream Sector", where he also delivered a speech on the Seychelles case. This was an excellent opportunity to expose the Seychelles Upstream potential and it is hoped that oil and gas companies will respond and consider investing in the Seychelles offshore.



Figure 8. PetroSeychelles CEO speaking at AOW 2017

COLLABORATION ACTIVITIES

Since its inception, PetroSeychelles, being an organization that employs highly qualified geoscientists, has assumed the additional role of de-facto Geological Survey in the absence so such a unit nationally, and collaborates with several Governmental organisations on various projects where such expertise is required. A summary of the company's involvement in the main projects under this heading is provided below.

Maritime Boundaries Delimitation Project

PetroSeychelles has been involved in the Seychelles Maritime Boundaries Delimitation Project (MBDP) from the start when the project was being administered by the Ministry of Land use and Habitat. The company became more involved in the project when the Seychelles decided to claim an extended continental shelf under Article 76 of the UN Convention on the Law of the Sea. In 2017, PetroSeychelles contributed greatly to the MBDP including preparation and presentation of the defense for the Seychelles claim of an extended shelf in the Northern Plateau Region to the Commission on the Limits of Continental Shelf at the UN headquarters in New York over several trips.

Joint Management Area (JMA)

Multi-Client Seismic Survey

Seychelles and Mauritius jointly successfully claimed an area of extended continental shelf in the Mascarene Plateau region. A Joint Commission has been set up to oversee the management of the joint area. Eventually, a Designated Authority will be set up to manage the day to day activities of the JMA. Several necessary legal instruments such as Environment Code, Joint Tax Code, Model Petroleum Agreement etc... have been put in place to enable sustainable exploitation of the resources of the seabed and subsoil in the JMA.

PetroSeychelles has been involved in the JMA management process from the start and in 2017 helped finalise some of the codes. The company also offered technical guidance in the bidding process for seismic contractors to undertake a multi-client seismic data acquisition project in the JMA. Spectrun Geo, a Norwegian company highly experienced in such surveys won the bid and will soon sign an agreement with the JMA authorities to allow the survey to start. Figure 8 shows the proposed survey soon to be acquired by Spectrum-Geo. The survey data will be marketed to international oil and gas companies and it is hoped that these companies will take up exploration acreage in the JMA. The survey will also steer attention on the Seychelles EEZ.

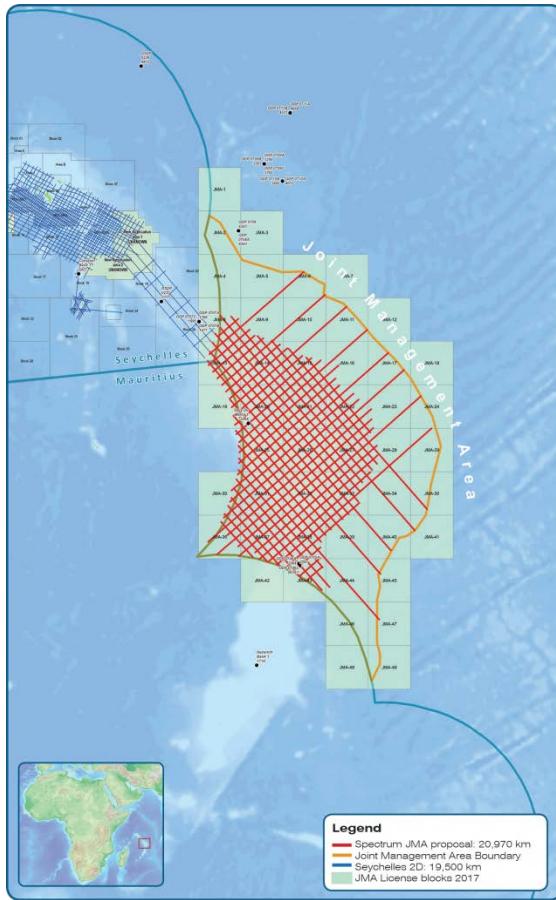


Figure 9. Proposed 2D multi-client survey by Spectrum-Geo

Official Launch of the JMA

The JMA will be officially launched to the industries and research institutions in November 2018. PetroSeychelles has been assigned the task of organizing the launching ceremony. During 2017 an organising committee was set up and PetroSeychelles prepared a concept paper and draft program for the two-day ceremony. World renowned Keynote speakers and panelists have been identified and preliminary contact made. The concept and draft program will be discussed with Mauritius side in early 2018. This grand event which will be held in Seychelles will be an excellent opportunity for PetroSeychelles to gain publicity and market the petroleum potential of the country. The country as a whole will also benefit from the international exposure.

Marine Spatial Planning (MSP)

The marine spatial planning project is an ongoing process where Seychelles is putting in place a management plan for the ocean space within its EEZ. The spatial plan is part of a debt for nature swap agreement whereby Seychelles is designating 30 % of its Exclusive Economic Zone as protected area with 15% as no take zones in exchange for some of its debt. PetroSeychelles is a key stakeholder in this process and has also made available data to facilitate the process. To date 210,570 square kilometres (16.2% of the EEZ) has been demarcated to complete the first phase of the MSP.

The proposed marine protected areas are 'Aldabra Group', a high biodiversity protection zone of 74,400 sq km surrounding Aldabra, Assumption, Cosmoledo and Astove, and 'Amirantes to Fortune Bank', a medium biodiversity & sustainable use zone of 136,570 sq km that includes the Mahe Plateau, African Banks, Amirantes, and eastward to Coetivy and Fortune Bank. There are several exclusion areas in Phase 1, including Territorial Sea waters that will be zoned over the next 3 years. Phase 1 of the exercise is expected to be completed by end February 2018.

The MSP process may have an impact on the ability of PetroSeychelles to license certain areas to interested companies and the company is therefore following developments very closely to ensure that its concerns are heard and considered.

Search for ground water sources

During 2017, PetroSeychelles assisted the Public Utilities Corporation (PUC) in a project to search for ground water sources on Mahe, Praslin and LaDigue. This project was deemed important due to the forecasted dryer than normal year in 2017. PetroSeychelles undertook a GIS based study to help identify the best locations for drilling of boreholes. The study considered several input parameters such as locations of previous boreholes, housing density and the possibility of sewer contamination of ground water, motorable access etc... to come up with proposed drilling locations which were then submitted to PUC. A Swedish company undertook the test drilling. PetroSeychelles will follow up on the results of the drilling in 2018.

Historic Sea Level Research

A group of carbonate sedimentologists/reef geologists from France working on the reconstruction of sea-level and environmental change based on coral reef records is planning to carry out a survey on the island of Assumption, Cosmoledo, Astove and Farquhar at the end of 2018. These data are very important for Seychelles as they will help scientists better understand past climate change and what may be expected in the future. PetroSeychelles is coordinating some local logistics by liaising with local organisations such as SBS, University of Seychelles, IDC, immigration to facilitate their entry into our EEZ and will also participate in the scientific research through possible co-authoring some of publications from the study.

Education

Collaboration with University of Seychelles

PetroSeychelles management believes strongly in educating the new generation and sharing its wealth of geoscience knowledge. Every year PetroSeychelles either gives a lecture to the University of Seychelles first year environmental science students or take them on a field trip to the Vista-do-mar deep seated landslide site. In 2017, a one hour lecture about the geology of Seychelles followed by a two hour practical on the identification

of different kinds of rocks and minerals found in Seychelles and other locations around the world was done. The lecture and practical were attended by 17 first year students. The company intends to build on this collaboration with the University in 2018 and explore ways of imparting more knowledge to the youth.

Production of Physical Geography work book and Atlas

PetroSeychelles had observed that teaching material for physical geography in public schools were outdated, not very legible and does not contain material specific enough to Seychelles. In this light, the company decided to fund the production of new school workbooks, atlases and wall maps for the teaching of the subject. Two consultants, ex geography teachers who are familiar with the Geography syllabus, were employed on a contract to produce the workbooks. A first draft was prepared during 2017 and it is expected that the project can be finalized in 2018.