



The Pakistan Credit Rating Agency Limited

Rating Report

Spud Energy Pty Limited (Pakistan Branch)

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
13-Jan-2023	A	A1	Stable	Maintain	-
14-Jan-2022	A	A1	Stable	Maintain	-
15-Jan-2021	A	A1	Stable	Upgrade	-
15-Jan-2020	A-	A2	Stable	Maintain	-
16-Jul-2019	A-	A2	Stable	Maintain	-
16-Jan-2019	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Spud Energy Pty Limited (Pakistan Branch) is engaged in the upstream Oil and Gas business in Pakistan. The Company is a wholly-owned subsidiary of Jura Energy Corporation (JEC), a public company listed on TSX Venture Exchange. The Board of JEC, comprising of four members, duly exercise intensive oversight over the company. The ratings also take into account the strong governance structure and management control of the parent company. Spud Energy benefits from expertise of the parent company's board. The financial position of Spud Energy Pty Limited (Pakistan Branch) remains strong owing to its robust profitability in 9MCY22 and comfortable debt protection metrics. The strength of the business reflects in the US dollar-based pricing and its collection in US dollars directly into the foreign currency bank accounts. In addition to that the Company is least exposed to exchange loss risk where all transactions are US dollar-based. Hence, the Company earned an exchange gain of PKR~ 737mln which strengthened bottom line of the Company. Spud Energy Pty Limited's (Pakistan Branch) management aims to grow its exploration and production portfolio while simultaneously sustaining the existing producing infrastructure in place. The Company has a receivable from a related party, the recovery of which is being worked out. In the meanwhile, improving cash flows of the Company bode well for covering the outstanding debt amounts.

The ratings are dependent on the sustained competitive positioning of the Company, while upholding good governance practices through its parent company i.e. Jura Energy Corporation. Financial discipline is considered crucial to the ratings, with enduring emphasis on maintaining relevant coverages and fulfilment of debt covenants is being supplemented by improving revenues and healthy margins. Sustenance and development in the gas and condensate production would remain a key factor.

Disclosure

Name of Rated Entity	Spud Energy Pty Limited (Pakistan Branch)
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Refineries(Nov-21),Sector Study Oil Marketing Companies(Nov-22)
Rating Analysts	Muhammad Noor Ul Haq noorulhaq@pacra.com +92-42-35869504



Profile

Legal Structure Spud Energy Pty Ltd (SEPL) is a limited liability company. It was incorporated in Australia on May 2, 1996. Spud Energy operates in Pakistan through a branch office (Pakistan Branch). The Company is a wholly-owned subsidiary of Jura Energy Corporation (JEC), Canada.

Background Spud Energy Pty Ltd was incorporated under the Corporations Law of New South Wales, Australia on May 2, 1996, as Novus Pakistan Pty Ltd. On April 14, 2005, Novus Pakistan Pty Ltd changed its name to Spud Energy Pty Ltd. Jura Energy Corporation is a TSX-Venture Exchange listed company and conducts business in Pakistan through two wholly owned subsidiaries namely Spud Energy Pty Ltd (SEPL) and Frontier Holdings Ltd (FHL).

Operations Spud Energy Pty Ltd. (Pakistan Branch) is engaged in the upstream oil and gas business in Pakistan. The Company holds working interests in three Exploration Licenses (Guddu, Nareli, and Zamzama North) and six development and production leases (Zarghun South, Sara, Suri, Reti, Maru, and Maru South) in Pakistan.

Ownership

Ownership Structure In 2005, Eastern Petroleum Ltd (EPL) acquired 100% shareholding of SEPL. In November 2011, EPL and JEC entered into an acquisition agreement pursuant to which EPL sold 100% shareholding of SEPL to JEC.

Stability Considering the strategic importance of Jura Energy Corporation, coupled with the positive future outlook of the business, the stability of the business is considered adequate.

Business Acumen Jura Energy Corporation, through its subsidiaries, has been engaged in the exploration, development, and production of oil and natural gas for more than two decades. Hence, business acumen is considered strong.

Financial Strength Jura Energy Corporation, the immediate parent of SEPL has total proved and probable reserves ~20.9BCF with after-tax NPV-10 of USD 42,975,000 as of 31st December 2021 as per the independent reserve report issued by McDaniel, Canada.

Governance

Board Structure Spud Energy Pty Ltd has three members on the board. The board is controlled by the parent Company i.e. Jura Energy Corporation. JEC's board has four members. The board comprises two independent, one non-executive, and an executive director. The board ensures effective governance through its committees, namely, i) Audit Committee, ii) Reserves Committee, iii) Compensation Committee and iv) Corporate Governance and Nominating Committee.

Members' Profile The BoD members have diversified experience and knowledge of investment banking, corporate finance, and energy. Mr. Timothy M Elliott (Ex-chairman) and three other BoD members resigned from the Board of JEC on 19 Aug 2022, further Mr. Syed Hasan Akbar Kazmi is at the helm of the board as acting Chairman. He is associated with the board since Feb-13, having vast experience in investment banking, corporate finance and private equity sector. Mr. Mehran Inayat Mirza and Dr. Grant R Pogoyan joined BoD as independent directors.

Board Effectiveness The existence of independent board members reflects strong transparency and efficacy in Company's board. The board of Jura Energy Corporation meets on a quarterly basis to discuss strategic matters.

Financial Transparency M/s A. F. Ferguson & Co. are the External Auditors of Spud Energy Pty Ltd (Pakistan Branch). The auditors have expressed an unqualified opinion on the financial statements for the period ended December 31, 2021.

Management

Organizational Structure Spud Energy Pty Ltd (Pakistan Branch) has a well-defined and flat organizational structure. The organizational structure of the Company is divided into six broad functional departments namely, i) Exploration & Development, ii) Reservoir / Production & Drilling, iii) Sara/Suri Field Office, iv) Finance, Reporting & Compliance, v) JV Commercial & Regulatory Affairs, and vi) HR, Admin & IT

Management Team Mr. Nadeem Farooq—CEO of Spud Energy Pty Ltd (Pakistan Branch) since September 2017, is a seasoned professional Chartered Accountant. He has over 20 years of professional experience including 15 years within the oil & gas industry. The CEO is assisted by a team of competent industry professionals.

Effectiveness The management of Spud Energy Pty Ltd (Pakistan Branch) plays a significant role in empowering the operational team to achieve the targeted results and ensures that a systematic decision-making process is being followed.

MIS The Company maintains an adequate MIS reporting system and monthly performance reports along with the information pertaining to exploration data acquisition, drilling, production and other operational issues are presented at meeting of department heads chaired by the CEO.

Control Environment Being a subsidiary of Canadian listed Company, Spud Energy Pty Ltd has adopted disclosure control and procedures required under the rules adopted by the Canadian Securities regulatory authorities and have Internal Controls over financial reporting which comply with the 2013 COSO Framework.

Business Risk

Industry Dynamics In Pakistan, there are 15 domestic and 35 Multinational companies operating with 20 rigs actively deployed for drilling, ~125 active exploration licenses as at end-Oct 22. Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. Currently, ~1,183 exploration wells and 1,560 appraisal/development well drilled as of Oct-22. Oil production and Gas production in Pakistan stood at 67,615 Barrels per day and 3,208 million cubic feet per day respectively. Exploration and production of hydrocarbons require high levels of capital expenditures and is a high-risk venture.

Relative Position At present, there are 23 Oil and Gas operators operating in Pakistan. Out of which 10 are local. SEPL has two operating leases namely Sara and Suri, having working interest of 60% in each. SEPL and its affiliate FHL's share in original recoverable reserves stood at ~11.46 BCF and ~9.4 BCF respectively.

Revenues The Company's revenue mainly comprises indigenous gas and condensate. During CY21, revenue posted a negative growth of ~16.4% to stand at PKR~2,370mln (CY20: PKR~2,836mln). During 9MCY22, the reported revenue amounted PKR 1,078mln.

Margins Spud Energy has reported operating income of PKR 262mln in CY21 as against PKR 1,136mln in CY20, registering a significant decline of 76.9% in operating margin due to decrease in gas production from Zarghun south lease. In addition to that the Company booked an impairment of property and plant equipment of PKR 2,348mln, leading to a net loss of PKR 1,498mln. During 9MCY22, the Company posted a net profit of PKR 351mln with a net profit margin of 32.5%.

Sustainability Sustainability in E&P sector for every Company depends on these factors i) Successful exploration of well, ii) Development of well, iii) Sustainable production from the well, and iv) Continuous replenishment of oil and gas reserves.

Financial Risk

Working Capital The average net working capital days of the Company surged to 123 (CY20: 61 days) on account of higher trade receivables days (CY21: 178 days; CY20: 147 days). The short term trade leverage of the Company decreased to 20.6% (CY20: 29.3%), allowing the Company to take on further borrowing facilities for operational utilization. During 9MCY22, the Company witnessed a similar trend in its cash cycle.

Coverages Free Cash Flows from Operations (FCFO) of the Company depicted a decrease to PKR 1,274mln CY21 as compared to PKR 1,635mln CY20. This is mainly due to the loss incurred during the period under review. Though, the interest coverage ratio (EBITDA / Finance Cost) stood at a strong position, decreasing to 4.7x in CY21 as compared to 6.0x in CY20. As at end-Sep22, the respective ratio further deteriorated to 1.3x.

Capitalization The Company has leveraged capital structure, where debt to equity ratio stood at 34.5% in CY21 (CY20: 34.7%). As at end-Sep22, total borrowings of the Company were reported at PKR 2,440mln (CY21: PKR 2,052; CY20: PKR 2,614mln).



SPUD Energy Oil Production & exploration	Sep-22 9M	Dec-21 12M	Dec-20 12M	Dec-19 12M
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A BALANCE SHEET

1 Non-Current Assets	4,011	3,318	6,358	6,023
2 Investments	-	-	-	-
3 Related Party Exposure	5,351	3,626	2,689	2,319
4 Current Assets	1,801	1,650	1,585	1,190
<i>a Inventories</i>	-	-	-	-
<i>b Trade Receivables</i>	945	886	1,413	865
5 Total Assets	11,163	8,594	10,632	9,531
6 Current Liabilities	2,273	2,101	1,989	1,794
<i>a Trade Payables</i>	360	318	404	928
7 Borrowings	2,440	2,052	2,614	882
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	835	537	1,103	755
10 Net Assets	5,615	3,904	4,926	6,101
11 Shareholders' Equity	5,615	3,904	4,926	6,101

B INCOME STATEMENT

1 Sales	1,078	2,370	2,836	1,771
<i>a Cost of Good Sold</i>	(875)	(1,701)	(1,391)	(877)
2 Gross Profit	203	669	1,445	894
<i>a Operating Expenses</i>	(279)	(2,756)	(309)	(150)
3 Operating Profit	(76)	(2,087)	1,136	744
<i>a Non Operating Income or (Expense)</i>	808	325	(106)	126
4 Profit or (Loss) before Interest and Tax	732	(1,762)	1,030	870
<i>a Total Finance Cost</i>	(258)	(271)	(274)	(264)
<i>b Taxation</i>	(124)	535	(149)	(213)
6 Net Income Or (Loss)	351	(1,498)	608	394

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	347	1,274	1,635	1,073
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	347	1,274	1,359	922
<i>c Changes in Working Capital</i>	(608)	(345)	(505)	83
1 Net Cash provided by Operating Activities	(261)	929	854	1,004
2 Net Cash (Used in) or Available From Investing Activities	(112)	(22)	(627)	(478)
3 Net Cash (Used in) or Available From Financing Activities	231	(753)	(338)	(684)
4 Net Cash generated or (Used) during the period	(142)	154	(111)	(158)

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-39.3%	-16.4%	60.2%	20.5%
<i>b Gross Profit Margin</i>	18.9%	28.2%	50.9%	50.5%
<i>c Net Profit Margin</i>	32.5%	-63.2%	21.4%	22.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-24.2%	39.2%	39.9%	65.3%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	9.4%	-34.3%	13.0%	6.9%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	232	178	147	156
<i>b Net Working Capital (Average Days)</i>	146	123	61	-3
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	0.8	0.8	0.8	0.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.3	4.7	6.0	4.1
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.2	0.7	1.0	0.7
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	24.5	2.5	2.2	1.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	30.3%	34.5%	34.7%	12.6%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	15.3%	11.6%	14.0%	25.1%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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