The Pakistan Credit Rating Agency Limited

Rating Report

Spud Energy Pty Limited (Pakistan Branch)

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 upstream Oil and Gas business in Pakistan. The company is a wholly owned subsidiary of Jura Energy Corporation, public company listed on TSX Venture Exchange. The Board of Jura Energy Corporation, comprising six members, exercises oversight over the company. The control environment is considered a plus. Auditors of the company are A. F. Ferguson & Co, Chartered Accountants. Currently, the company has 40% working interest in Zarghun South Development and Production lease, from where the company is predominantly deriving its revenue. The other revenue stream is from the Guddu Block with three different Development and Production leases. The impact of circular debt prevailing in the country is a concern, yet the lag is not significant in case of Spud Energy Pty Limited (Pakistan Branch) particularly. The strength of the business reflects in the US dollar based pricing and its collection in US dollar directly into the foreign currency bank accounts. Spud Energy Pty Limited's (Pakistan Branch) management is pursuing an expansion strategy with the aim to make additions to its revenue stream which would support the business bottom line. This is expected to be debt driven. Company is expecting a sizeable contribution to the revenue during 1QCY20 from the development well ZS-4 in Zarghun South. Yet, the cash flow position is considered supportive. The company has a receivable from a group company, where the operational revenues are close to materialization.

The ratings are dependent on sustained competitive positioning of the company, while upholding good governance practices through its parent Company i.e. Jura Energy Corporation. Volatility in business margins and prevailing inter-corporate circular debt issue in the oil and gas industry of Pakistan remain key areas of consideration. Financial discipline is considered core to the ratings, with enduring emphasis on maintaining relevant coverages and fulfilling the debt covenants.

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 Ratings(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Oil Marketing Companies(Nov-19)
Rating Analysts	Saadat Mirza | saadat.mirza@pacra.com | +92-42-35869504

Profile

Legal Structure Spud Energy Pty Ltd, a Company with limited liability, incorporated in Australia on May 2, 1996. Spud Energy operates in Pakistan through a branch office in Islamabad. The company is a wholly owned subsidiary of Jura Energy Corporation, 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 and Frontier Holdings Ltd.

Operations Spud Energy Pty Ltd (Pakistan Branch) is engaged in upstream oil and gas business in Pakistan.The Company holds working interests in three Exploration Licenses (Guddu, Zamzama North and Sanjawi) and six development and production leases (Reti, Maru, Maru South, Zarghun South, Sara and Suri) in Pakistan. Moreover, company is drilling a development well ZS4 in Zarghun South block, commercialization of the same is expected in 1QCY2020.

Ownership

Ownership Structure In 2005, Eastern Petroleum Ltd acquired 100% shareholding of Spud Energy Pty Limited. In November 2011, Eastern Petroleum Ltd and Jura Energy Corporation entered into a acquisition agreement pursuant to which Eastern Petroleum Limited sold 100% shareholding of Spud Energy Pty Ltd to Jura Energy Corporation.

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

Business Acumen Jura Energy Corporation, through its subsidiaries has been engaged in 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, immediate parent of Spud Energy Pty Ltd has total proved and probable reserves ~62 BCF with after tax NPV-10 of USD 113,449,000 as at 31st December, 2018 as per 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. Jura Energy Corporation’s board has six members. The board comprises of three independent, two non-executive and one executive director. Timothy M. Elliott-Chairman of the Board is also an independent director reflecting strong transparency and efficacy in Company’s board.

Members’ Profile The BoD members have a diversified experience and knowledge of investment banking, corporate finance and energy. Mr Elliott joined the Board of Directors in 2007 and became Chairman of the Board in November 2015. Mr Elliott has worked in the international oil and gas industry for 30 years.

Board Effectiveness During CY19, Jura Energy Corporation's board held six meetings to address the strategic decisions of the Company. The board ensures effective governance through its committees, namely, i) Audit Committee, ii) Reserve Committee, iii) Compensation Committee and iv) Corporate Governance and Nominating Committee.

Financial Transparency A. F. Ferguson & Co., is the external auditor of the Spud Energy Pty Ltd (Pakistan Branch). The auditors have expressed an unqualified opinion on the financial statements for the period ending December 31, 2018.

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–Chief Executive Officer of Spud Energy Pty Ltd (Pakistan Branch) since September 2017, is a seasoned professional chartered accountant. He has over 17 years of professional experience including 12 years of 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, 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 37 multinational oil and gas exploration and production companies. Pakistan has an average of ~3 wells per 1,000 sq. km of exploratory acreage. As at November 2019, oil production and gas production in Pakistan stood at 81,496 Barrels of oil per day and 3,403 million cubic feet per day respectively.

Relative Position At present, there are 24 operators operating in Pakistan, out of which 10 are local. Spud Energy Pty Ltd (Pakistan Branch) has two operated leases namely Sara and Suri, having working interest of 60% in each. Spud Energy Pty Ltd (Pakistan Branch) and its affiliate Frontier Holdings Ltd share in original recoverable reserves stood at ~46 BCF and ~13 BCF respectively.

Revenues Company's revenue mainly comprises of indigenous gas and condensate. During 9MCY19, revenue experienced an increase of 21% amounting to PKR 1,328mln (9MCY18: PKR 1,013mln) . This increase is primarily observed owing to the increase in dollar price and exchange rate fluctuation.

Margins During 9MCY19, gross margin of Company is increased to ~51% (9MCY18: ~46%) on account of improvement in topline. Operating profit of the Company stood at PKR 571mln during 9MCY19 (9MCY18: PKR 435mln).Increase in operating income is owing to the trickle down effect of improved topline. Company’s topline as of 9MCY19 stood at PKR ~1,327mln with gross margin standing at 51% and operating income stood at PKR 571mln.

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 As of 9MCY19, trade debts amounting to PKR ~860mln (CY18: ~646mln) are due from oil refineries and gas utility companies, of which PKR 295mln are past due but not impaired. Spud Energy Pty Ltd's (Pakistan Branch) has stretched its payable days enough to finance its working capital since 2016 but as of 9MCY19 company has only been able to stretch payable days enough as for receivable days, resultantly net cash cycle days reported as nil (CY18: -32 days). Working capital management of the entity is considered good due to stretched payment to concession operators.

Coverages FCFO during the period under review improved to PKR ~847mln 9MCY19 as compared to PKR~675mln 9MCY18 on the back of improved profitability. Spud Energy Pty Ltd (Pakistan Branch) debt coverage ratio (FCFO / Interest + CMLTD) 9MCY19: 1.5x, CY18: 1.4x. Spud Energy Pty Ltd (Pakistan Branch) is expected to receive the amount due from affiliate i.e. Frontier Holdings Ltd in 1QCY20 after the commercialization of Badin South gas field in Mar-20.

Capitalization Spud Energy Pty Ltd (Pakistan Branch) currently has a low leveraged capital structure comprises 14% debt as of 9MCY19 (CY18: 19%). Company’s entire debt comprises of long term borrowing. An upward leveraging trend in capital structure is expected as Company is planning to raise additional debt during CY20 for Capital expenditure related to development Well ZS4 in Zarghun south.

PKR mln

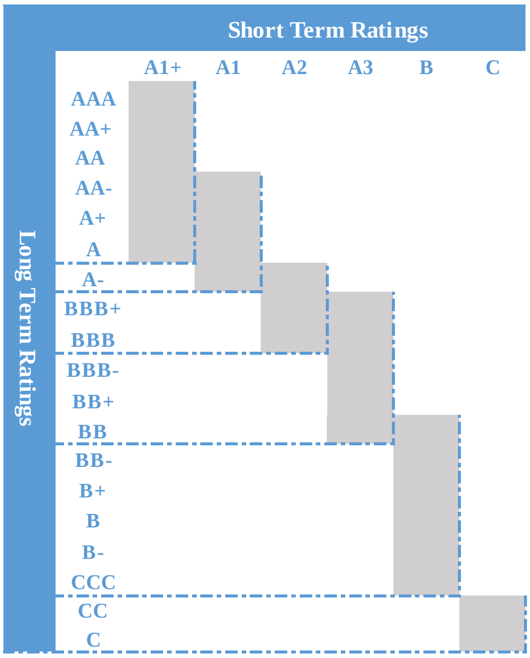
Spud Energy Pty Ltd	Sep-19	Dec-18	Dec-17	Dec-16
Exploration & Production	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	5,924	5,256	4,671	4,660
2 Investments	-	-	-	-
3 Related Party Exposure	2,247	1,860	1,077	621
4 Current Assets	1,411	1,066	943	288
a Inventories	-	-	-	-
b Trade Receivables	*860*	*646*	*186*	*123*
5 Total Assets	9,582	8,182	6,690	5,569
6 Current Liabilities	1,613	1,183	1,336	991
a Trade Payables	*893*	*609*	*476*	*451*
7 Borrowings	1,039	1,221	1,528	1,063
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	712	441	294	285
10 Net Assets	6,218	5,337	3,532	3,230
11 Shareholders' Equity	6,218	5,337	3,532	3,230
B INCOME STATEMENT				
1 Sales	1,328	1,469	1,114	652
a Cost of Good Sold	*(653)*	*(649)*	*(713)*	*(640)*
2 Gross Profit	675	820	401	13
a Operating Expenses	(104)	(547)	(98)	1,227
3 Operating Profit	571	273	303	1,240
a Non Operating Income or (Expense)	*174*	*415*	*100*	*7*
4 Profit or (Loss) before Interest and Tax	745	688	404	1,246
a Total Finance Cost	*(135)*	*(211)*	*(183)*	*(34)*
b Taxation	*(195)*	*(87)*	-	-
6 Net Income Or (Loss)	415	390	221	1,212
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*847*	*1,054*	*612*	*118*
b Net Cash from Operating Activities before Working Capital Changes	*739*	*921*	*510*	*42*
c Changes in Working Capital	*106*	*(802)*	*(306)*	*(98)*
1 Net Cash provided by Operating Activities	845	120	204	(56)
2 Net Cash (Used in) or Available From Investing Activities	(266)	(321)	(88)	(344)
3 Net Cash (Used in) or Available From Financing Activities	(478)	(177)	347	236
4 Net Cash generated or (Used) during the period	101	(378)	464	(164)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	20.5%	31.8%	70.9%	-34.9%
b Gross Profit Margin	50.8%	55.8%	36.0%	1.9%
c Net Profit Margin	31.3%	26.5%	19.8%	185.8%
d Cash Conversion Efficiency (EBITDA/Sales)	63.8%	71.7%	55.0%	18.1%
e Return on Equity (ROE)	9.6%	8.8%	6.5%	43.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	155	103	50	206
b Net Working Capital (Average Days)	0	-32	-101	-175
c Current Ratio (Total Current Assets/Total Current Liabilities)	0.9	0.9	0.7	0.3
3 Coverages				
a EBITDA / Finance Cost	6.3	5.0	3.3	3.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.2	1.2	0.7	0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.3	1.6	4.5	21.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	14.3%	18.6%	30.2%	24.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Average Borrowing Rate	15.9%	15.3%	14.1%	5.9%

Credit Rating Scale & Definitions

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.

Long Term Ratings	
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short Term Ratings	
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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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.

(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)

Proprietary Information