

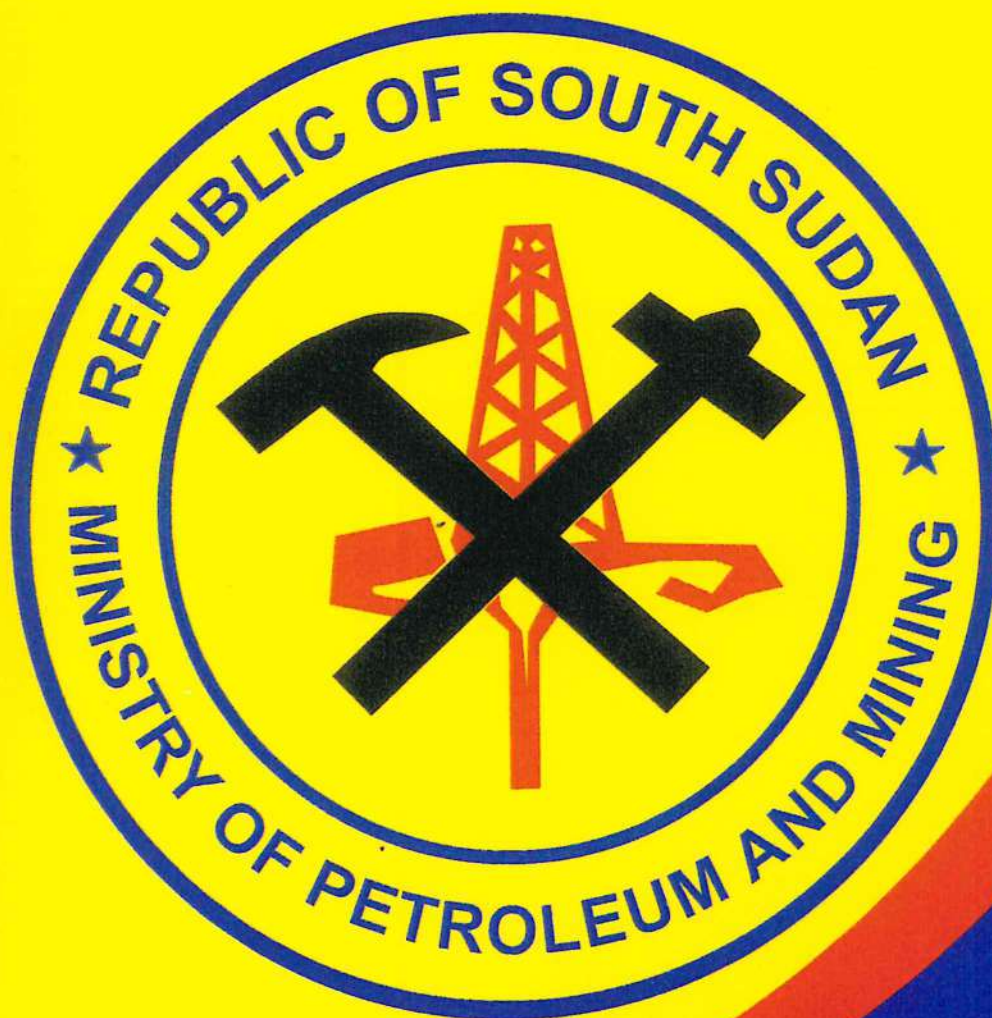
REPUBLIC OF SOUTH SUDAN
MINISTRY OF PETROLEUM AND MINING



MPM Marketing Report

June, 2014 - May, 2015

Twelve Months Results



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Crude Oil Entitlement section,

Downstream Department,

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MESSAGE FROM THE MINISTER

Honorable Stephen Dhieu Dau Ayik is the Minister of Petroleum and Mining for the Government of the Republic of South Sudan. He has guided the petroleum activities of the Ministry since August 2011.

He was born in the oil producing region of Melut County, Upper Nile State. After attending Renk Secondary school (1982-1985), he was accepted at the University of Cairo, Egypt where he graduated in 1990 with a Bachelor's degree in Commerce. He also holds a Post Graduate Diploma in Banking from the Higher Institute of Financial Banking Studies Khartoum in 1994 and a Master's Degree in Banking Studies from the Sudan University of Science and Technology, Khartoum in 2005.



He joined the Central Bank of Sudan in Khartoum in 1991 and undertook several professional banking operations courses in the Gulf and the UK, progressing to a senior bank position in 2005. He was one of the few South Sudanese Central Bank officials that attained such a position. He participated in the establishment of the two window Banking Systems in the Sudan as stipulated in the CPA, as a member of the joint committee for the preparation, introduction and conversion of the pound. More importantly, as one of the few SPLM members working in the Central Bank of Sudan, he was also one of the bank officials that oversaw the currency transition from the Dinar to the Pound in 2005.

Before his current appointment, and as a result of South Sudan's institutional reorganization, he held the position of Minister of Petroleum, Mining and Industry and prior to that the position of Minister of Commerce and Industry. Previous to his federal government appointment he held the position of State Minister of Finance, Trade and Economic Planning in Upper Nile State.

It is with great pleasure that I present to you this third annual publication of the Ministry of Petroleum and Mining's crude oil marketing report covering the government's fiscal year from June 2014 to May 2015. The report provides detailed activity and statistics on the government's marketing accomplishments and demonstrates my ministry's commitment to openness and transparency in all of the work that we do.

The past year has been difficult for global crude oil markets and South Sudan has been impacted particularly hard with so much of our economic activity and government funding being dependent on crude oil production and sales. Crude production in the Unity State oil fields remained shut down for the entire fiscal period due to regional insecurity and production in Upper Nile State has remained low but steady. The Brent crude oil price, upon which our sales are based, has dropped 42% since June 2014 severely impacting our

crude oil revenue. Unfortunately the transitional financial arrangement and other fees paid to Sudan do not change with the reduction in the crude price resulting in a disproportionately larger share of our earnings being allocated to this debt obligation. Nonetheless, during the fiscal year South Sudan oil sales including Nile Petroleum's share totaled 34.7 million barrels with a realized sales value of US \$2.4 billion.

The Ministry of Petroleum and Mining has been working hard to find ways to minimize the impact of reduced production and the declining oil price. The ministry recognizes that we must focus on controllable issues and our staff has worked closely with our contractors to develop realistic oil field work plans and budgets that are fair to all parties. We are working with our neighboring countries on crude oil export and fuel import issues as well as participating in discussions on the feasibility of a new export pipeline. We are considering ways to move forward to restart Unity State production. Regional security issues also continue to hamper our infrastructure projects but we remain committed to the development of refineries, fuel storage facilities and domestic pipelines.

The past year has allowed the ministry to add additional key staff which has permitted us to enhance our regulatory and oversight obligations. We have improved our monitoring and reporting on production, transportation and shipping, marketing activities, crude oil entitlement and contractor audits. We have strengthened our environmental review efforts and worked more closely with local communities to address regional issues. We have implemented a new Management Systems regulation as well as a new system of administrative monetary penalties for environmental infractions. This will provide my ministry with stronger enforcement provisions for environmental violations backed by the full support of legislation and regulation.

During the year we worked with our foreign partners from Norway, the World Bank, USAID and AusAID to improve strategic planning and develop the capacity of our staff to better fulfill their duties and we look forward to continuing this relationship. South Sudan has tremendous potential for future petroleum and minerals exploration and development. My ministry and staff remain committed to unlocking this potential for the mutual benefit of all South Sudanese people



Honorable Stephen Dhieu Dau Ayik

Minister of Petroleum and Mining

MINISTRY OF PETROLEUM AND MINING

ORGANIZATIONAL STRUCTURE

The mandate and functions of the Ministry of Petroleum and Mining (MPM) are provided for in Section 175 of the Transitional Constitution and are guided by both The Petroleum Act, 2012 and The Mining Act, 2012 and various regulations.

The MPM is responsible for the Petroleum Directorate which consists of the two Downstream activities of Marketing and Supply and Investment, the Upstream Operations, Health, Safety and Environment and Petroleum Infrastructure. The Mining Directorate includes Minerals Development and Geological Survey. Other Directorates and Departments include the Strategy, Planning and Research Directorate, the Finance and Administration Directorate and the Legal Administration Department.

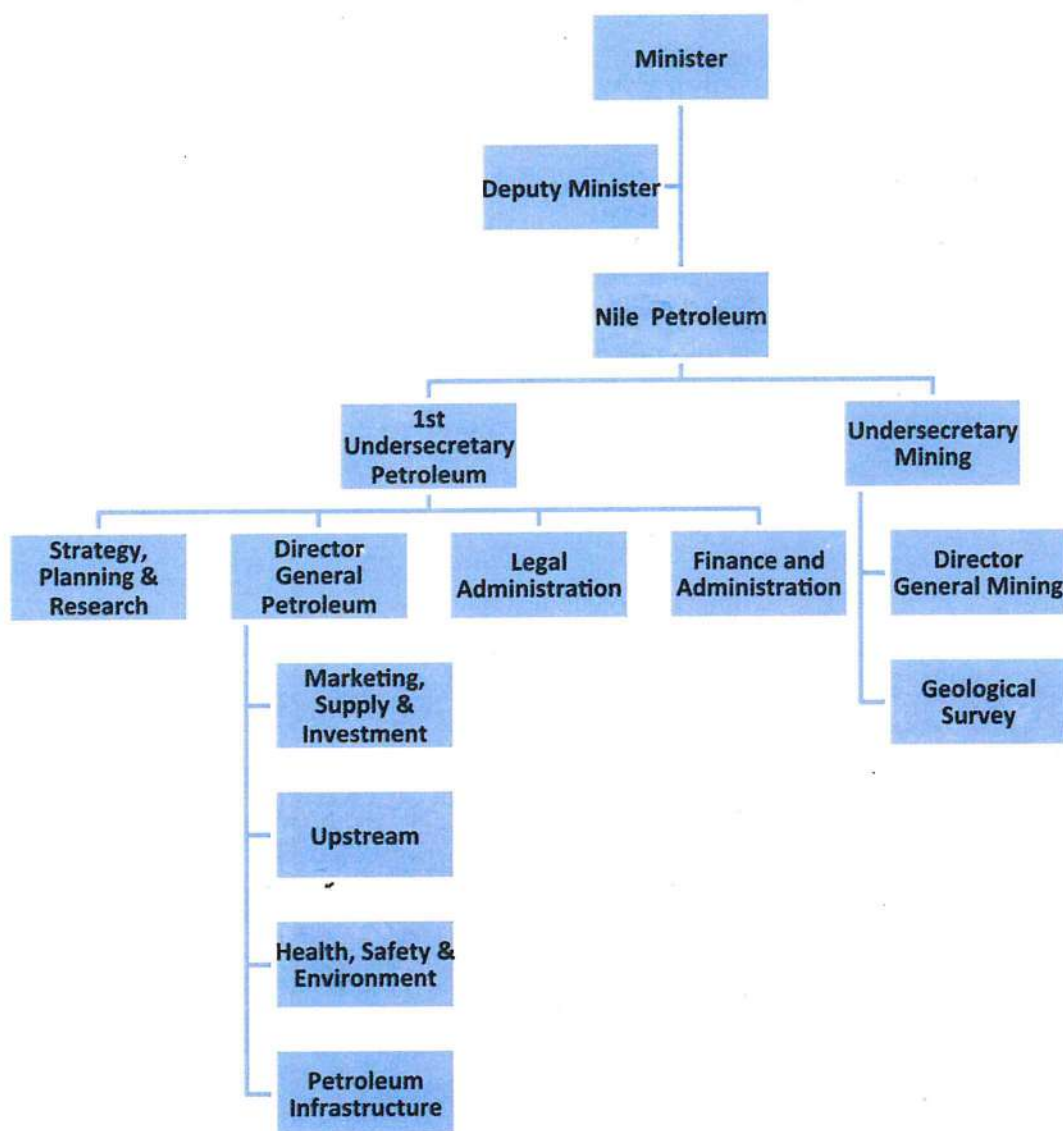


Figure 1: MPM Organizational Structure

Crude Oil Marketing Department Overview

In accordance with the MPM's obligation to manage the country's petroleum resources on behalf of the government, the Ministry has established a crude oil marketing department in 2011 under the Petroleum Directorate Downstream Group to market the country's entitlement share of production. The marketing department is responsible for the following activities:

1. reviewing the monthly crude lifting programs
2. vetting potential crude buyers
3. preparing the bid tenders
4. issuing the tenders
5. working with the Marketing Committee on tender award recommendations to the Minister
6. preparing the sales contracts
7. monitoring vessel arrivals, loadings and departures at the marine terminal
8. preparing the invoices to the buyers
9. ensuring that sales proceeds are received on time and deposited into the appropriate government bank accounts
10. preparing detailed marketing reports for use by MPM officials, other government ministries and agencies and for public release through the minister's office.

To further develop the activities of the marketing department as well as those of other MPM Directorates and Departments, Ministry officials have been actively engaged in defining and developing a comprehensive strategic plan that will establish short and long term priorities and programs. Strategic planning is the first step to the preparation of annual work plans and assigning responsibility and accountability. The work plan is also used for identifying budget and resource requirements, including skilled personnel, which is fundamental for ensuring future petroleum and mining sector growth in South Sudan.

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ABBREVIATIONS

MPM Crude Oil Marketing Report

bbl	barrel
boe	barrels of oil equivalent
BOSS	Bank of South Sudan
DM	developed markets
EIA	US Energy Information Administration
EM	emerging markets
EPSA	Exploration and Production Sharing Agreement
GOS	Government of Sudan
ICP	Indonesia Crude Price
IEA	International Energy Agency
IMF	International Monetary Fund
Mbbl	thousand barrels
M3/D	thousand cubic meters per day
Mbbl/d	thousand barrels per day
MMbbl	million barrels
MMbbl/d	million barrels per day
MOFEP	Ministry of Finance and Economic Planning
MPM	Ministry of Petroleum and Mining
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
RSS	Republic of South Sudan
STB	standard tank barrels
STP	standard temperature and pressure
STEO	short term energy outlook
SSP	South Sudan Pound
USD	United States Dollar
WTI	West Texas Intermediate
WB	World Bank

LIST OF FIGURES, GRAPHS, CHARTS and Tables

MPM Crude Oil Marketing Report

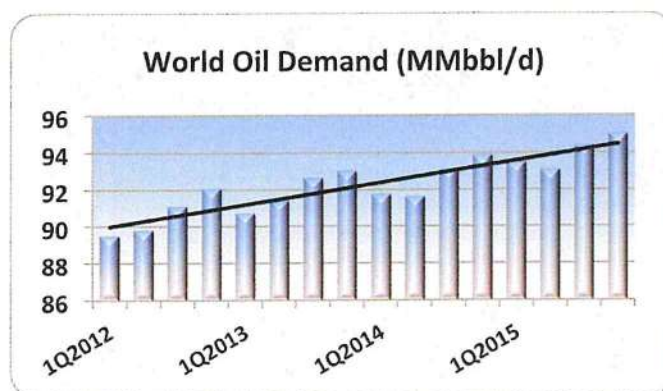
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PART 1 – GLOBAL OIL ENVIRONMENT

June 2014 – May 2015

1.1 World Crude Oil Demand

The worldwide demand for crude oil grew by 0.9 million barrels per day (MMbbl/d) in 2014. According to the U.S. Energy Information Administration (EIA), the estimate for world oil demand in 2014 averaged 92.0 MMbbl/d. The EIA is predicting global consumption to grow by 1.3 MMbbl/d in both 2015 and 2016. OPEC is also forecasting global oil demand to grow at 1.18 MMbbl/d in 2015 and predicts that total oil consumption is expected to pick up pace in 2015, leading to a total oil demand of 92.5 MMbbl/d for 2015.



Graph 1: Oil Demand / Source - International Energy Agency

OECD Consumption – The Organization for Economic Co-operation and Development (OECD) member states consumption fell by 0.4 MMbbl/d in 2014 but is expected to grow by 0.4 MMbbl/d in 2015 and by 0.2 MMbbl/d in 2016. Japan and Europe accounted for nearly the entire 2014 decline in OECD oil consumption. Japan's consumption is expected to continue declining at a slower rate over the next two years while Europe's consumption is expected to grow slowly. The United States is the leading contributor to projected OECD consumption growth in 2015, with U.S. consumption increasing by 0.4 MMbbl/d, while consumption in both the United States and Europe increases by about 0.1 MMbbl/d in 2016.



Non OECD Consumption – Consumption in non OECD countries grew by 1.2 MMbbl/d in 2014 and is projected to grow by 0.8 MMbbl/d in 2015 and by 1.2 MMbbl/d in 2016.

MMbbl/d in 2016. Lower forecast growth for non-OECD consumption in 2015 mostly reflects a 0.2 MMbbl/d decline in Russia's consumption as a result of its economic downturn. Russia's oil consumption is expected to decline by a similar amount in 2016, although it is offset by growth elsewhere. China's economic growth slowed in the second half of 2014 and in the beginning of 2015. Nonetheless, China remains the main source of non-OECD oil consumption growth, with a projected annual average increase of 0.3 MMbbl/d in both 2015 and 2016, down from growth of 0.4 MMbbl/d in 2014. India's economic and manufacturing growth continued to rise in the first half of 2015, and projected petroleum and other liquids consumption growth is 0.2 MMbbl/d in 2015 and 2016, compared with 0.1 MMbbl/d in 2014.

The degree to which global oil demand responds to lower oil prices is only beginning to become apparent. South Sudan Dar Blend oil is primarily sold into the Chinese market and refineries in that country as well as some power plants in Japan are capable of handling and welcome the heavy, slightly acidic, low sulfur grade. With the prediction of slightly increasing consumption in China over the next few years it is unlikely that demand for South Sudanese crude will be impacted.

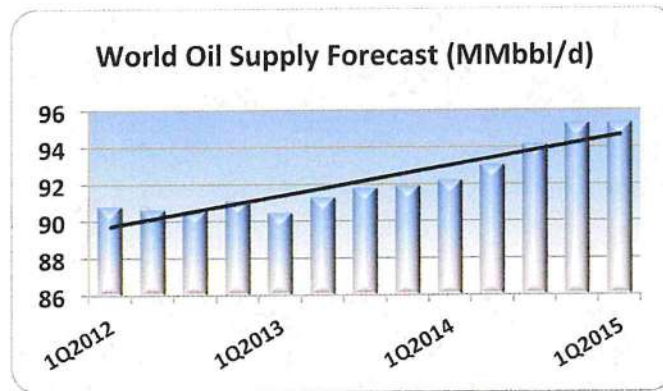
1.2 World Crude Oil Supply

Global oil supplies have recently risen to about 95.3 MMbbl/d in the first quarter of 2015, an increase of more than 3.4% or 3.1 MMbbl/d over Q1 2014 according to the International Energy Agency (IEA). The US Energy Information Administration (EIA) notes that global oil production continues to exceed consumption resulting in the buildup of inventories worldwide. Inventory build averaged 2.2 MMbbl/d in the first half of 2015 and are forecast to average 1.6 MMbbl/d in 2016. The reduction in inventory build levels in 2016 reflects a projected rising demand and a slowing in non OPEC production growth, particularly in the United States. Continuing high inventory levels indicate that the remaining limited storage could result in a drop in production in future periods if supply continues to exceed demand.

U.S. production has risen to a three-decade high of 9.61 MMbbl/d, while OPEC has continued to exceed its target of 30 MMbbl/d for more than a year. OPEC recently agreed to maintain its output quota to defend market share. In addition the U.S. shale oil sector has a number of wells that have been drilled but not yet placed on production due to the current economic situation. This

additional production capacity may serve to balance OPEC vs. non OPEC crude oil supply should the former decide to reduce production levels in the future.

South Sudan crude oil output represents a small fraction of total daily global production. Typical buyers of the country's crude oil are also investors in South Sudan's petroleum sector and it is therefore likely that all crude oil produced in the future will be able to be marketed irrespective of total global supply levels.



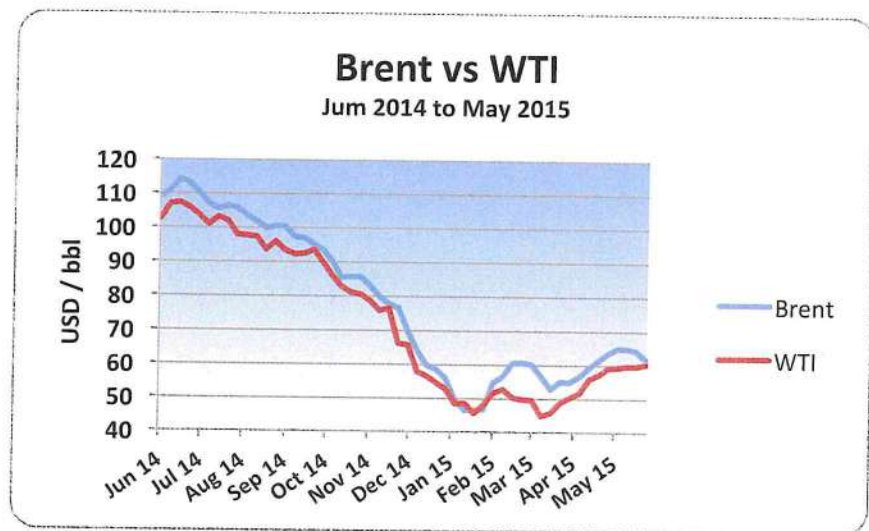
Graph 2: Oil Supply / Source - International Energy Agency

Non OPEC Supply – Non OPEC production grew by 2.3 MMbbl/d in 2014, mainly from the United States shale oil operations and non OPEC production is expected to continue to grow by 1.3 MMbbl/d in 2015 and by 0.2 MMbbl/d in 2016. U.S. and Canadian production growth will account for much of the increase while reductions in Russia due to reduced investments and sanctions will offset some of these gains.

OPEC Supply – The EIA has estimated that OPEC crude production averaged 30.1 MMbbl/d in 2014 and is predicted to rise by 0.6 MMbbl/d in 2015 before falling by 0.2 MMbbl/d in 2016. Crude oil production declines in Libya, Angola, Algeria and Kuwait were offset by production growth in Iraq and Iran. A nuclear agreement with Iran could result in as much as 1.0 MMbbl/d of shut in oil being released to the market.

1.3 Crude Oil Price Outlook

The Dated Brent crude oil price, upon which all South Sudan sales are based, has fallen by more than 42% since June 2014 when it was trading at nearly \$112 per barrel. The price had reached a low of \$47.86 in January 2015 before climbing back to a range of \$60-\$65 at the end of this fiscal reporting period.



Graph 3: Brent vs. West Texas Intermediate (WTI) Price

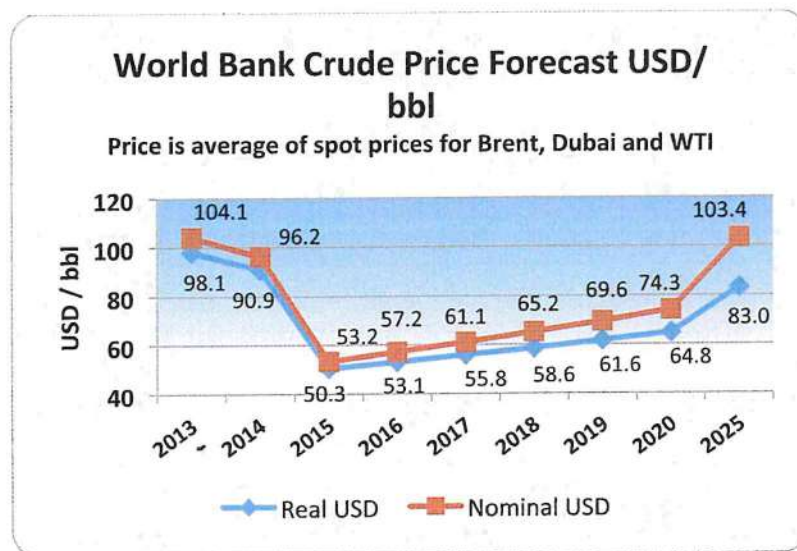
These price reductions during the past year can be mainly attributed to the following factors:

1. The United States has become the world's largest oil producer at 9.61 million barrels per day with the significant development of its shale oil capacity during the past several years. Though it does not export crude oil, the U.S. now imports much less, creating a lot of spare supply.
2. Saudi Arabia and its Gulf allies have elected not to reduce their production and thus their own market share to restore the price as they have done in the past. These countries could curb their production sharply, but the main benefits would accrue to countries with which they have a difficult political relationship such as Iran and Russia. Saudi Arabia could tolerate lower oil prices quite easily with \$900 billion in oil reserves and production costs of only \$5-6 per barrel.
3. Reduced global demand because of weak economic activity, increasing energy efficiencies, and a growing switch away from oil to other fuels.
4. The turmoil in Iraq and Libya—two big oil producers with nearly 4 million barrels a day combined—has seemingly not affected their output as the markets appear to be more tolerant and accepting of geopolitical risk.

EIA Forecast – The EIA is projecting that the Brent crude oil price will average \$61 per barrel in 2015 and \$67 per barrel in 2016 reflecting an increase in forecast non-OPEC crude oil production growth in 2016. However, the EIA has cautioned that this price projection remains subject to the uncertainties surrounding the possible lifting of sanctions against Iran and other market events. WTI prices in both 2015 and 2016 are expected to average \$5/b less than Brent.

Goldman Sachs Forecast – Goldman Sachs has cut its price estimate for Brent for 2016-2018 to \$65 per barrel and is predicting that it will trade at \$55 per barrel in 2020. This is based on the assumption that long term oil prices could drop and remain lower as producers make more permanent efficiency and productivity improvements.

World Bank Forecast – In April 2015 The World Bank (WB) released its Commodity Forecast, which predicts that the world crude oil price will decrease from the average USD 96 per barrel in 2014 to USD 50 per barrel in 2015 increasing to an optimistic USD 103 per barrel by 2020 as shown in Graph 4 below.



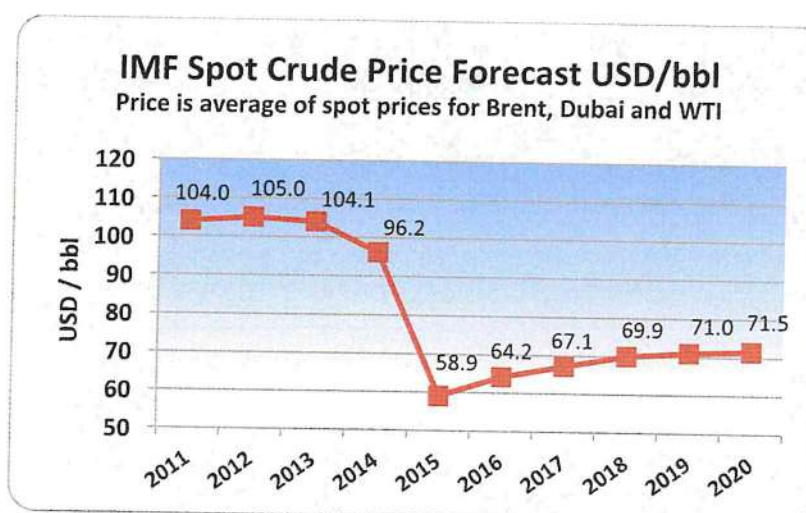
Graph 4: World Bank Price Forecast

EIA Forecast – The US Energy Information Agency (EIA), in its June 9, 2011 paper on the Short Term Energy Outlook (STEO), predicts a 2015 price for WTI of USD 55.35/bbl and a Brent price of USD 60.53 per barrel.

EIA Report	2013	2014	2015	2016
WTI Crude	97.98	93.17	55.35	62.04
Brent Crude	108.56	98.89	60.53	67.04

Table 1: EIA Crude Price Forecast

IMF Forecast – The International Monetary Fund (IMF), in its recent Commodity Price Forecast, predicts the spot average price for crude oil will drop to USD 58.90 per bbl by 2015 recovering to USD 71.50 by 2020.



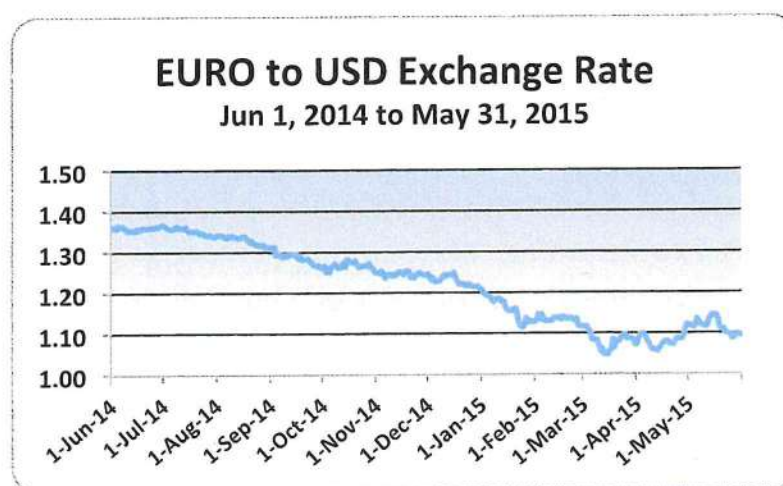
Graph 5: IMF Spot Price Forecast

It is clear that the prediction of future oil prices is a difficult and complex exercise which is subject to many different political, geographical, financial and operational variables. Nonetheless, the longer term price forecast by each of these reputable organizations suggest that crude oil prices are expected to remain in the low \$55-\$65 range in the near term and gradually rise towards the end of the decade.

Fundamental market changes are here to stay with lower demand, increasing energy efficiencies, alternative energy forms, and increased long term supply. South Sudan, which relies heavily on crude oil production, recognizes the need to maximize its current petroleum assets while at the same time find ways to diversify its energy supply / demand, develop a national energy program and adjust to the new reality.

1.4 Currency Exchange Rates

Global Exchange Rates – The United States dollar has continued to appreciate against many world currencies in 2014 and the first half of 2015. The USD – Euro exchange rate comparison from the beginning of June 2014 through to the end of May 2015 is shown in Graph 6. The Euro has lost nearly 20% to the USD during this twelve month marketing report period. Similarly, the Japanese Yen has lost 18% while the currency of South Sudan's important trading partner, the Chinese Yuan has held steady gaining about 1%. Weakening foreign exchange in many countries has lifted significantly the price of oil in local currencies which in some instances may serve to curtail demand.



Graph 6: Euro to USD Exchange Rate

Table 2 illustrates the impact of the US dollar appreciation on selected currencies:

Symbol	Country	Jun 1/14	May 31/15	% Change
CNY	China	0.16201	0.16327	1%
JPY	Japan	0.00982	0.00805	-18%
EUR	Euro	1.3628	1.0957	-20%
CAD	Canada	0.92149	0.80289	-13%
NOK	Norway	0.16725	0.12865	-23%
AUD	Australia	0.93071	0.76367	-18%

Table 2: Selected Currency Exchange Rates

A stronger dollar is one factor, along with a slower global economy, reduced global demand and political unrest that has contributed to the falling oil price. Oil is typically traded in U.S. dollars and when the dollar strengthens, oil prices in relative terms tend to fall. The recent drop in the Brent crude oil price from about \$115 per barrel to \$63 per barrel has coincided with the rise in the dollar and the sharp dollar increase in the second half of 2014 was blamed by some for the large



Figure 2: Price vs. USD - From the website marketrealist.com

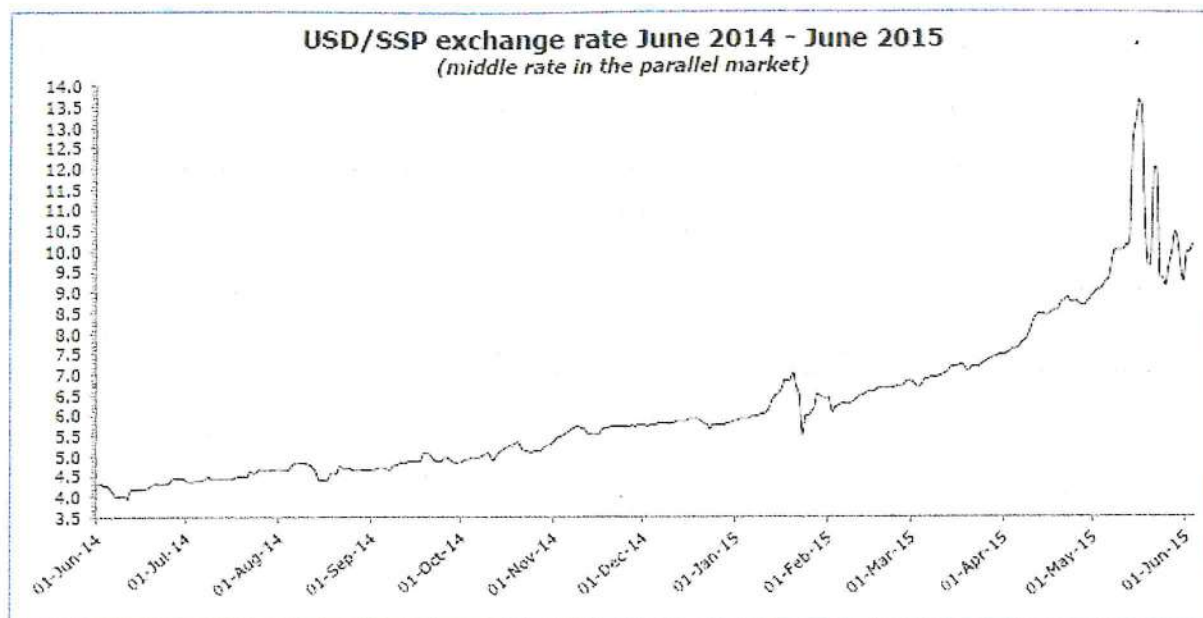
sell off in the price of oil. Now that the dollar value has dropped, the dollar sell-off is being seen as a contributing factor to the increase in the oil price.

The diversity of oil price drivers makes it difficult to pin down the exact nature of the correlation between the dollar and oil prices but some key relationships have been noted:

- Oil prices generally move in the opposite direction to the dollar
- Oil prices and the dollar typically do not have a meaningful correlation over the long term due to other factors
- The short term dollar / oil price relationship tends to be closer
- The dollar's relationship with oil appears to be closer when the dollar is rising, compared to when the dollar is falling

WTI appears to have a more significant correlation with the dollar than Brent when the dollar is rising and seem similar when the dollar is falling.

South Sudan Exchange Rate – Since the end of June 2014, the USD to South Sudanese Pound (SSP) parallel exchange rate has fluctuated between a low of 4.0 SSP/USD and a high at the end of May 2015 of about 10 SSP/USD. The rate peaked at more than 13.5 SSP/USD in early May 2015 as shown in Graph 7. All South Sudan oil sales are denominated in USD which offers some protection from the currency variation; however domestic payments could be impacted by the exchange rate differences as USD is converted to SSP.



Graph 7: USD / SSP Parallel Exchange Rate

1.5 Africa and the South Sudan Region

Africa – According to the U.S. Energy Information Agency total 2014 African crude oil production was estimated at about 8.7 MMbbl/d. The five largest producers – Nigeria, Angola, Algeria, Egypt and Libya accounted for more than 80% of African production. Of the 20 oil producing countries in Africa listed by the EIA, South Sudan ranks ninth in total crude oil output averaging 164 thousand barrels per day throughout 2014.

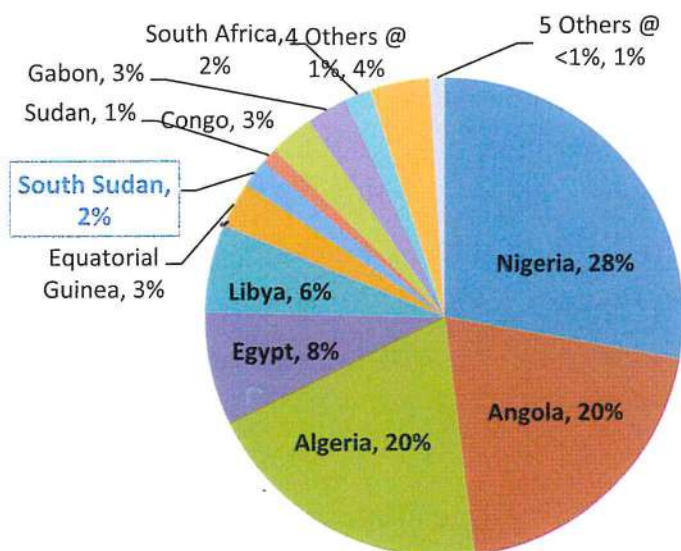


Chart 1: Africa Crude Oil Production Share – 2014

Overall production in Africa has declined 6% during the past year and combined with the sharp and possibly prolonged reduction in oil prices, it has required many countries to cut their budgets and reduce spending. The African Petroleum Producers Association, led by Angola and Algeria, is starting an initiative to seek collaboration between members of OPEC and other oil producers to reduce output and stabilize prices.

South Sudan – Since the restart of production in April 2013, South Sudan has had average production of 178 Mbbl/d. Production peaked at 247 Mbbl/d in early December 2013 and has averaged 164 Mbbl/d during the past fiscal year. Sales are made under a confidential bid tender program and prices received have been competitive and transparent and based on international market conditions. Demand has been very good for South Sudanese Dar Blend crude oil, particularly in Asian markets such as China and Japan as their refineries are capable of handling the highly acidic Dar Blend crude oil.

According to South Sudan's annual review of oil reserves, the country has about 1.1 billion Standard Tank barrels of developed and undeveloped recoverable reserves as of January 1, 2015. The majority of reserves are located in the oil-rich Muglad and Melut basins, which extend into both countries.

Oil field exploration and development work in South Sudan has been hampered since early 2014 due to the security situation in the regions. The recent push by government forces to drive out rebel factions has been successful, particularly in Unity State but also in the Upper Nile area. Much work remains to be done in South Sudan to confirm additional oil reserves, to improve recovery factors and enhance production from the existing oil fields and to offer new areas for exploration to international investors. With the recent improvements in regional security, the Ministry of Petroleum and Mining looks forward to working closely with our producing partners in 2015 to increase production for the mutual benefit of all.

PART 2 – PETROLEUM UPSTREAM FRAMEWORK AND ANALYSIS

April 2013 to May 31, 2014

2.1 Republic of South Sudan – Petroleum Legislation and Regulations

2.1.1. 2012 Petroleum Act Overview

- The Act has 21 chapters and 100 sections covering upstream – ownership of petroleum is vested in the people and managed by the Republic of South Sudan for their benefit;
- The Ministry of Petroleum and Mining is responsible for the management of the petroleum sector;
- Emphasis is on maximum recovery within a framework:
 - providing for “prudent operations”,
 - using best international practices,
 - ensuring safety, security and protection of the environment, and
 - requiring transparency, accountability and ethical behavior, on the part of licensees/contractors and Government;
- The EPSA contractual regime continues with certain key provisions of these agreements made part of the legislation;
- A licensing regime for reconnaissance activities, installers and operators of transportation systems (including pipelines) is provided for based on an open and transparent bidding process.

Highlights & Current Status

- Safety and environment put primary responsibility on the contractor;
- The Act endorses the concept of “*local content*”, using South Sudanese, if competent and available, to fill skilled and unskilled positions;
- The Act affirms Ministry of Petroleum and Mining responsibility for administration, implementation and enforcement;
- The Act provides for broad regulatory powers to legislative regime;
- The Act has been enacted and has been in force since July 2012.

2.1.2. Petroleum Revenue Management Act

The Petroleum Revenue Management Act (PRMA) establishes formalized structure for the distribution of petroleum revenues to:

- immediate budgetary needs;
- savings including revenue stabilization and future generation and;
- Direct transfers to petroleum producing states and affected communities.

It establishes a high standard for reporting requirements for both the Government and oil companies, with the overarching principle of transparent and accountability management.

The Act was approved by South Sudan's two houses of parliament and was signed into law by the President of the Republic of South Sudan on November 10, 2013.

2.1.3. Petroleum Regulations

- The Health, Safety and Environment Systems regulation was signed into law by the Minister of Petroleum and Mining on March 31, 2013. The regulations provide for:

- Contractors to develop, implement, maintain, comply and ensure compliance with an adequate and effective management system
- Must follow a "Plan – Do – Check – Act" framework
- Must fit into the over-all management system framework
- Must follow the Environmental and Social Impact Assessment (ESIA) for the area involved
- Must be site specific for important stages in the life-cycle of petroleum activities

The regulation will better enable and support the ministry's HSE goal to monitor and assess the contractors HSE performance against the defined management system and when combined with the administrative penalties program that is currently being developed will give the government extremely effective tools for compliance and enforcement.

- Amendments to the Petroleum Act 2012 have been drafted to enable a regulatory regime for charging and collecting administrative penalties and are under review by stakeholders; the draft regulation putting the regime into effect is also being prepared simultaneously with the draft statutory provisions.
- Four Petroleum Regulations are in various stages of development: 1) occupational health and safety, 2) records & reporting, 3) drilling & production, and 4) graticulation and licensing.

2.2 Exploration & Production Sharing Agreements (EPSA) Overview

The map in Figure 3 outlines the areas of current petroleum activities in the Republic of South Sudan.

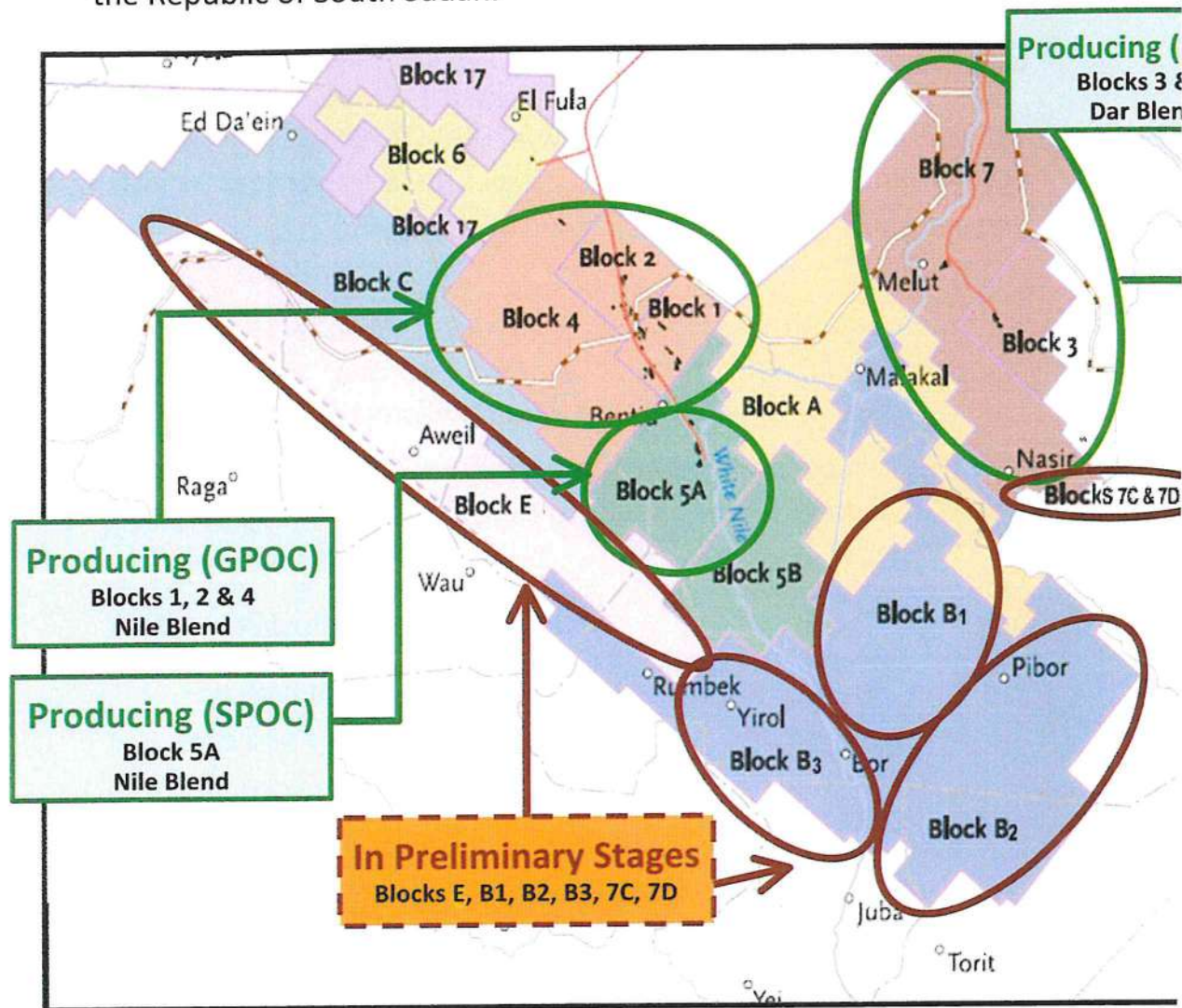


Figure 3: South Sudan Petroleum Blocks

The Republic of South Sudan has entered into or is negotiating six agreements with foreign investors for the exploitation of the country's petroleum reserves. Crude oil production is being realized under three of these agreements and the remaining three are still in various stages of the complex negotiation phase. These production and potential exploration areas include:

Blocks 1a and 1b – Greater Pioneer Operating Company (GPOC) – Unity State
 Blocks 1a and 1b are located in Unity State and the Nile Blend crude oil is produced from some 283 wells. Final oil processing is done at the Heglig facilities in Sudan prior to flowing into the larger Nile Blend export stream via

the GNPOC pipeline to the marine terminal in Port Sudan and onwards to markets. The producing wells are located in several different oil fields with varying qualities which are blended to average 34 API, 0.06% Sulfur. Highlights of the Blocks 1a and 1b EPSA are shown below:

Greater Pioneer Operating Company (GPOC)		
<i>Development Blocks 1b and 2b</i>		
Operating Costs	Recovered in year incurred	
Capital Costs	Recovered over four years	
Cost Oil Maximum	40%	
Excess Cost Oil	RSS 100%	
Profit Oil	60%	
Profit Oil Sharing	RSS	Contractor
< 25,000 bbls / day	61.5%	38.5%
> 25,000 bbls / day; < 50,000 bbls / day	71.0%	29.0%
> 50,000 bbls / day	80.0%	20.0%
<i>Exploration Blocks 1a, 2a and 4</i>		
Operating Costs	Recovered in year incurred	
Capital Costs	Recovered over four years	
Cost Oil Maximum	45%	
Excess Cost Oil	RSS 100%	
Profit Oil	55%	
Profit Oil Sharing	RSS	Contractor
< 25,000 bbls / day	60%	40%
> 25,000 bbls / day; < 50,000 bbls / day	70%	30%
> 50,000 bbls / day	80%	20%

Table 3: GPOC EPSA Fiscal Terms

Block 5A – SUDD Petroleum Operating Company (SPOC) – Unity State

Block 5A is located in Unity State and has some 55 producing oil wells. Crude oil designated as Nile Blend flows to the Heglig facilities in Sudan for final processing prior to export through the GNPOC pipeline. Due to the heavier crude oil characteristics, Block 5A production is typically restricted to about 10% of the total GNPOC throughput in order to not significantly degrade the total oil volumes. Highlights of the Block 5A EPSA are shown below:

SUDD Petroleum Operating Company Limited (SPOC)		
<i>Block 5A</i>		
Operating Expenses	Recovered in year incurred	
Exploration Expenses	20% per financial year	
Development Expenses	20% per financial year	
Cost Oil Maximum	40%	
Excess Cost Oil	Shared as per Profit Oil	
Profit Oil	60%	
Profit Oil Sharing	RSS	Contractor
< 25,000 bbls / day	71.5%	28.5%
> 25,000 bbls / day; < 50,000 bbls / day	72.5%	27.5%
> 50,000 bbls / day; < 100,000 bbls/day	76.25%	23.75%
> 100,000 bbls / day	81.25%	18.75%

Table 4: SPOC EPSA Fiscal Terms

Blocks 3 & 7 – Dar Petroleum Operating Company (DPOC) – Upper Nile State

Blocks 3 & 7 are located in Upper Nile State and have some 618 oil wells producing the heavier and acidic Dar Blend crude. The crude oil is initially processed at the DPOC field processing facilities in Palouge prior to passing to the Al Jabalain central processing facilities across the border in Sudan for final processing and water removal. The oil then enters the Petrodar pipeline for transport to the Port Sudan marine terminal and onward to markets. The producing wells are located in several different oil fields with varying qualities which are blended to average 26 API, 0.1% Sulfur. Highlights of the Blocks 3 & 7 EPSA are shown below:

Dar Petroleum Operating Company (DPOC)		
<i>Development Block 3D</i>		
Operating Expenses	Recovered in year incurred	
Exploration Expenditures	25% per financial year	
Development Expenditures	25% per financial year	
Cost Oil Maximum	50%	
Excess Cost Oil	Shared as per Profit Oil	
Profit Oil	50%	
Profit Oil Sharing	RSS	Contractor
< 10,000 bbls / day	64%	36%
> 10,000 bbls / day; < 15,000 bbls / day	67%	33%
> 15,000 bbls / day; < 20,000 bbls / day	77%	23%
> 20,000 bbls / day	80%	20%
<i>Exploration Blocks 3E</i>		
Operating Expenses	Recovered in year incurred	
Exploration Expenditures	25% per financial year	
Development Expenditures	25% per financial year	
Cost Oil Maximum	45%	
Excess Cost Oil	Shared as per Profit Oil	
Profit Oil	55%	
Profit Oil Sharing	RSS	Contractor
< 25,000 bbls / day	70%	30%
> 25,000 bbls / day; < 50,000 bbls / day	73%	27%
> 50,000 bbls / day; < 75,000 bbls / day	75%	25%
> 75,000 bbls / day	80%	20%
<i>Exploration Blocks 7E</i>		
Operating Expenses	Recovered in year incurred	
Exploration Expenditures	25% per financial year	
Development Expenditures	25% per financial year	
Cost Oil Maximum	45%	
Excess Cost Oil	Shared as per Profit Oil	
Profit Oil	55%	
Profit Oil Sharing	RSS	Contractor
< 25,000 bbls / day	70%	30%
> 25,000 bbls / day; < 50,000 bbls / day	72%	28%
> 50,000 bbls / day; < 75,000 bbls / day	74%	26%
> 75,000 bbls / day	80%	20%

Table 5: DPOC EPSA Fiscal Terms

Block B1 – Total

There is no production from this block – re-negotiation for signing the Exploration and Production Sharing Agreement (EPSA) with the partners is still in progress.

Block B2 – Total

There is also no production from this block – re-negotiation for signing the EPSA with the partners is in progress.

Block B3

This Block will be tendered as per the Petroleum Act 2012 for potential operators to compete in order to win ownership and exploitation.

Block E

There is also no production from this block – negotiations for signing EPSA with the partners are continuing.

2.3 Crude Oil Reserves and Analysis

A recent comprehensive reserve assessment has not yet been independently completed by the Government. The MPM Upstream department has been working hard in consultations with the Joint Operating Companies (JOCs) to improve the accuracy of the reserve estimate. Data available from the JOCs shows total reserves of 1,083.71 million Standard Tank Barrels (MMSTB) as at January 1, 2015.

Field	Petroleum Initially in Place (PIIP) (MMSTB)	Recovery Factor (RF) %	Estimated Ultimate Recovery (EUR) (MMSTB)	Cumulative Production (MMSTB)	Reserves (MMSTB)		Total Reserves (MMSTB)
					Developed	Undeveloped	
DPOC Blocks 3 & 7	5,405.86	23.00	1,259.75	546.92	543.30	169.52	712.83
GPOC Blocks 1, 2, 4	2,557.50	33.20	849.80	657.00	132.40	60.40	192.80
SPOC Block 5A	2,655.13	8.32	221.04	42.97	79.13	98.95	178.08
Totals	10,618.49	21.50	2,283.84	1,246.89	754.83	328.87	1,083.71

Table 6: South Sudan Crude Oil Reserves

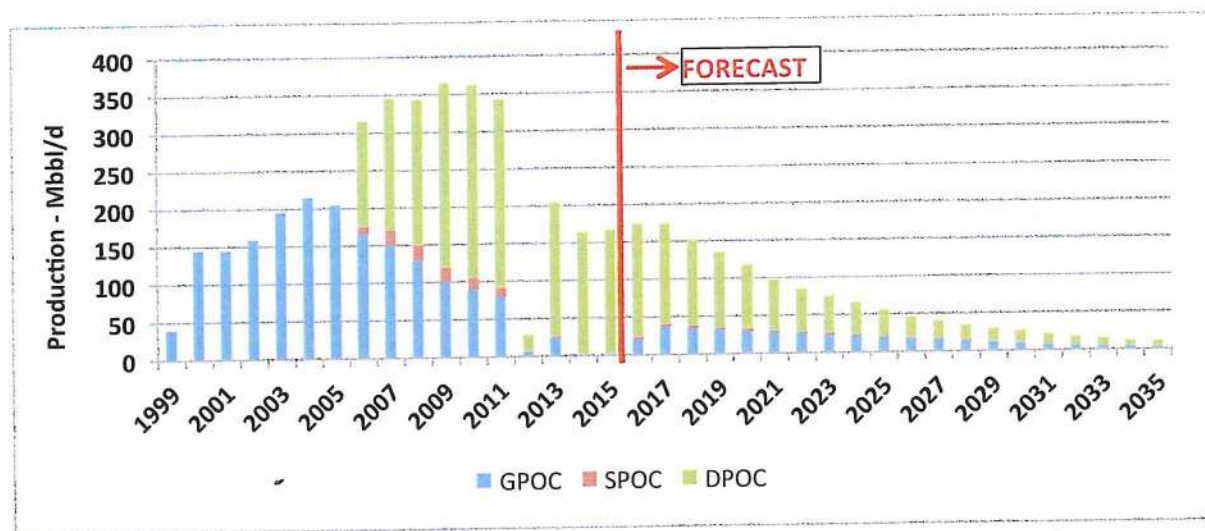
The net change in reserves for the year 2015 for each of the producing areas is shown in the following Table 7. The net change reflects a reduction for the production for the year offset by any reserve additions or adjustments for the period.

Crude Type	Contractor	Block	2015 Reserves (MMbbl)	2014 Reserves (MMbbl)	Net Change
Nile Blend	GPOC	1a, 1b	192.8	192.8	0
Nile Blend	SPOC	5A	178.08	178.08	0
Sub Total			370.88	370.88	0
Dar Blend	DPOC	3, 7	712.83	769.3	-56.47
Total			1,083.71	1,140.18	-57.54

Table 7: Net Change in RSS Crude Oil Reserves

2.4 Production Forecast and Recovery Factors

The graph below shows the average actual daily production to date and the projected decline rates for all three producing blocks through to 2035 without further reinvestment or new investments to replace reserves.



Graph 8: Historical Production & Production Forecast

Future investments to optimize oil field operations, implement improved / enhanced oil recovery schemes and initiate new exploration has the potential to significantly increase the levels of production and extend the life of the fields.

Production Forecast

- Production is predicted to continue at reduced levels of 160-170 thousand bopd for the remainder of 2015 with no further production from the Unity State Nile Blend oil fields expected until 2016.
- Production declines are expected over the next 5 years without further reserve replacement or production enhancements. This is a normal production reserves decline pattern without additional investment.
- The current shut down of Unity State oil wells will not change the production profile as oil wells can probably restart without loss of accessible production. Only the timing of production is affected.
- Most future production derives from the Dar Blend fields in Upper Nile.
- The production profile takes into account only the estimated production from the fields currently in production.
- Possible new discoveries and increased recovery rates from IOR / EOR projects may give higher future production.
- Additional participation in the fields, including new foreign investment and new technology, can materially improve the overall production forecast curve, as new investment will focus on production growth.

2.5 September 2012 Cooperation Agreements – South Sudan and Sudan

On September 27, 2012 the Government of South Sudan and the Government of Sudan entered into a number of agreements to cooperate across a range of areas of common interest and committed themselves to implementing these agreements including “The Agreement on Oil and Related Economic Matters”. Collectively these agreements are known as the 2012 Cooperation Agreements.

Oil Agreement Highlights – The principle highlights of The Agreement Concerning Oil and Related Economic Matters are:

- South Sudan would have access rights to the GNPOC (Nile Blend) and Petrodar (Dar Blend) processing and transportation facilities located on the territory of Sudan;
- South Sudan would provide their proportionate share of pipeline facilities which would be redelivered to South Sudan at the expiry of the agreement;
- Agreement on financial arrangements (United States Dollars per barrel) are:

United States Dollars	GNPOC (Nile Blend)	Petrodar (Dar Blend)
Processing Fee	1.60	1.60
Transportation Fee	8.40	6.50
Transit Fee	1.00	1.00
Fee Sub Total	11.00	9.10
Transitional Financial Arrangement	15.00	15.00
Total Fees	26.00	24.10

Table 8: Summary of Financial Arrangement with Sudan

- All payments will be based on the net barrels lifted at the Port Sudan marine terminal;
- The maximum cumulative amount of the Transitional Financial Arrangement is USD 3.028 billion;
- The agreement will remain in force for a period of three years and six months as of the date of the first oil liftings at the marine terminal and bill of lading issued (Start June 2013; Expires December 2016).

PART 3 – TRANSPARENCY

Now and For the Future

3.1 International Best Practices

On July 9, 2011 the Ministry of Petroleum and Mining, Republic of South Sudan assumed full and complete responsibility for petroleum and mining operations on its territory. Petroleum operations are managed on behalf of the people of South Sudan and the responsibilities and obligations of the MPM are enshrined in the Transitional Constitution and guided by the Petroleum Act 2012.

The MPM is dedicated to forming an institutional structure and establishing business relationships in an open and transparent manner. Transparency in Marketing is the cornerstone to growing a new international customer base mandated to conform to the highest ethical standards, as well as to ensure oil revenue cash flows are conducted through proper channels. Examples of Transparency in our Marketing Team practices:

<u>Activity</u>	<u>Benefit</u>
• Formal Sales Contracts	Detailed and Comprehensive
• Limited Direct Negotiations	Only on Short Notice Avails
• Tender Approach to Selling	Allows for Open Bidding
• Guidelines for Awarding Cargoes	All Bidders Follow Same Rules
• Marketing Team Membership	Interdisciplinary Across Ministries
• Floating International Pricing	Established Industry Benchmark
• Customer Prescreening Application	Serves a Background Check
• Bids Reviewed by All Members	Sign off by Each Member
• All Revenues Directly to Finance	MoFEP Approved Accounts
• Documented Meeting Minutes	Recaps All Issues Discussed
• Ministerial Approval of Awards	Documented Official Approval

3.2 Pre-established Award Criteria

Clearly established criteria to evaluate competing bids for RSS monthly crude oil sales has been developed and implemented by the Marketing Team. While

price is the single most important factor, there are a number of important additional factors considered as well to safeguard RSS interests, as shown below:

Republic of South Sudan - Ministry of Petroleum & Mining	
Bid Evaluation Criteria	
<u>Pre-Approval</u>	Marketing Team pre-agree list of companies allowed to participate in tender
<u>Transparency</u>	All Bids received within the Tender timeline are tabled for review by Team
<u>Conformity</u>	Bids received that do not conform to Tender conditions may be eliminated
<u>Commitment</u>	Intention is to commit all cargoes offered in Tender if acceptable conditions
<u>Selling Priority</u>	Awards should be announced in date order to avoid distressed sale later
<u>Price</u>	Pricing is a major (not only) factor in awarding cargoes to winning Bidders
<u>Security</u>	Financial security is a major (not only) factor in cargo awards
<u>Diversification</u>	Spreading exposure to multiple Bidders is a factor in awards
<u>Target Buyers</u>	Recognition of large end user factored in if relationship adds value to RSS
<u>Negotiation</u>	Follow up direct negotiation should be limited to clarifying bid submissions
<u>Payment</u>	Early payment options considered to meet government operational needs

3.3 Other Transparency Initiatives

In addition to the marketing activities listed above related to the direct selling of crude oil, MPM is continuing to emphasize transparency in all of its business practices. For example, this is the third annual edition of the marketing report which provides comprehensive information to stakeholders, interested parties and the public on the crude oil marketing activities of the Ministry. The Petroleum Revenue Management Act is strongly supported by the MPM and

provides further guidance on crude oil revenue management as well as additional transparency under new reporting obligations. The implementation of the Extractive Industries Transparency Initiative (EITI) has also been strongly supported by the Ministry and, although progress to date has been limited due to the capacity constraints of the Ministry as well as the need to address other urgent priorities, the MPM and the government continue to remain committed to its effective implementation.

The Ministry has also initiated the practice of providing periodic press releases which outline recent sales and production volumes, crude oil revenues, tariff and assistance fee payments to Sudan as well as other relevant marketing data. The Ministry is continuing to work to improve its website to enable much more information about Ministry activities to be disseminated to the public.

PART 4 – MARKETING PERFORMANCE

April 2014 – May 2015

4.1 The Marketing Team

A preselected interdisciplinary group representing the Ministry of Petroleum and Mining, Ministry of Finance and Economic Planning, Ministry Of Justice and the Bank of South Sudan meet on a monthly basis to review crude marketing issues, consider sales strategy, address customer issues, and make the award recommendations for oil sales contracts. Members of the marketing team are:

Hon Macar Aciek Ader, Chairman
1st Undersecretary MPM

Mr. Gieth Abraham Dauson
Minister's Office, MPM – Member

Mr. Philip Luwala Bepo
Acting Director General Petroleum,
MPM

Mr. Barnaba Tito
MPM Member

Ms. Akur Ajuoi Magot
Legal Advisor, MPM

Mr. Gregore Siwaka Sule
MPM Member

Mr. Agak Achuil Lual
D/Director for Marketing

Mr. Akuei Ajou Akuei
MPM Member

Mr. Loi Majak Mapuor
Ministry of Finance and Economic
Planning – Member

Ms. Nyawut Luth Adija
MPM Member

Mr. Simon Kiman Lado
Ministry of Finance and Economic
Planning - Member

Mr. Tiberious Ohide
MPM Member

Mr. Moses Makur Deng
Bank of South Sudan - Member

Mr. Glen Hutka
Advisor, MPM Member

Ms. Eptisam William Morjan
Bank of South Sudan - Member

Mr. Tom O'Connor
Advisor, MPM Member

This membership list can be expected to change and develop as reassignments within the various ministries occur and additional experienced marketers from the Republic of Sudan are identified and recruited to strengthen the crude oil marketing function.

4.2 Marketing and Transportation

Crude marketing began in mid-July, 2011, immediately following our country's new independence, and successfully continued through mid-January, 2012. Production was shut down from January 2012 through to April 2013 in response to the confiscation of several RSS crude oil cargoes by Sudan as well as transportation and tariff disputes with the GoS. In April 2013 production was restarted through mutual agreement between South Sudan and Sudan and supported by the signing of the September 2012 Cooperation Agreements.

The following table summarizes the crude oil marketing activity in South Sudan for the reporting period of June 1, 2014 to May 31, 2015:

June 1, 2014 - May 31, 2015	Cargoes	Volume (MMbbl)	USD	SSP	Percent
Total Crude Oil Sales	54	34,700,235	2,386,242,200	7,158,726,600	100%
Less:					
Payable to Sudan			836,266,988	2,508,800,963	35%
Sales Allocated for Loan Repayment	15	3,796,743	338,035,291	1,014,105,873	14%
Nile Petroleum Sales	1	1,937,338	123,143,346	369,430,038	5%
Sales Reallocated to Nile Petroleum	3	1,198,862	104,366,051	313,098,154	4%
Net Republic of South Sudan Sales	35	27,767,292	984,430,524	2,953,291,572	41%

Table 9: Summary of RSS Crude Oil Marketing Activity

A total of 34.7 MMbbl of crude oil valued at USD 2,386 million (7,158 million SSP) was sold during the current reporting period at an overall average net price, including Nilepet sales, of USD 68.77 per barrel. During the previous reporting period of June 2013 and May 2014 South Sudan sold 33.1 MMbbl of crude oil at an average price of USD 99.88 per barrel for total revenue of USD 3,307 million.

Net crude oil revenues received into the Republic of South Sudan, Ministry of Finance and Economic Planning bank accounts for the reporting period were USD 984 million (2,953 million SSP) from the sale of 27.8 MMbbl of crude oil at an average net price of USD 35.45. The final sales value is net of the transitional financial arrangement and tariff payments to Sudan, sales

allocated for loan repayments and Nilepet sales. The lower sales value per barrel for RSS sales reflects the allocation of cargoes valued at higher prices to loans and to Nilepet in the latter part of 2014. All payments for oil loaded under the RSS name onto our customer ships up to the end of May 2015 have or will have been collected by the end of June 2015. According to our standard international sales contract, payment is made by the buyer 30 days after the crude oil cargo has been loaded on board the vessel.

The entitlement sales volumes by month that were allocated to the RSS for the reporting period of June 2014 to May 2015 are shown in the first line of Table 10 below and total 34.7 MMbbl. Deductions are made for contractual loan repayment obligations and for sales volumes attributed to Nilepet's equity participation in the production agreements. Republic of South Sudan net sales were 27.8 MMbbl.

Sales Volumes by Month – RSS Share (MMbbl)													
	2014							2015					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Total
RSS Gross Sales	3.6	3.5	3.5	2.2	3.9	1.7	2.8	3.9	2.8	2.2	2.3	2.2	34.7
Loan Repayments	1.0	0.9		1.1	0.8								3.8
Nilepet Sales	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.2	0.2	1.9
Nilepet Allocations	0.6					0.6							1.2
RSS Net Sales	1.9	2.5	3.4	1.0	3.0	1.0	2.7	3.7	2.7	1.9	2.1	2.0	27.8

Table 10: Crude Oil Sales Volumes by Month – RSS Share

NOTE: The sales activity is uneven month over month. The reason is that the sales month is adjusted to reflect the actual loading date e.g. a cargo contracted for December 2014 entitlement was loaded on the first day of January 2015 and is considered a January cargo for purposes of this table since January pricing will be used.

The allocation of monthly gross crude oil USD revenues received for the reporting period of June 2014 to May 2015 is shown in Table 11.

Crude Oil Revenues by Month – RSS Share (MMUSD)													
	2014							2015					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Tot
RSS Gross Sales	372.9	338.3	312.4	184.9	293.7	120.2	148.6	141.9	130.9	101.0	119.0	122.4	2,38
Payable to Sudan	87.2	85.3	84.8	53.4	94.6	41.7	67.9	93.1	68.5	52.0	32.1	75.7	83
Loan Repayments	99.0	83.9		94.5	60.7								33
Nilepet Sales	15.7	10.7	11.8	10.3	9.5	9.9	7.5	4.8	9.1	14.0	9.2	10.6	12
Nilepet Allocations	62.8					41.5							10
RSS Net Sales	108.2	158.4	215.8	26.7	129.0	27.1	73.2	44.0	53.3	35.0	77.7	36.0	98

Table 11: Crude Oil Revenues by Month – RSS Share

The MPM Marketing group has assumed full responsibility for the marketing of the country's crude oil during the past four years since South Sudan independence and has gained valuable experience during this time. The group continued to receive some administrative and reporting guidance from our Petroleum Advisors, particularly in the area of management reporting. The multi-disciplinary Marketing Team consisting of members from MPM, MoFEP, BOSS, and MOJ meet monthly to review issues and evaluate and recommend the winning bidders and it provides important guidance and oversight to the crude oil marketing function.

4.3 South Sudan Crude Oil Entitlement

The Exploration and Production Sharing Agreements (EPSAs) that are in place in South Sudan provide for the sharing of production on a proven equitable basis. The production sharing terms of our agreements are consistent with well-established arrangements in place in many other countries worldwide.

Production sharing is classified into two components:

1. Cost oil – Shared only by the equity owners in the oil fields
2. Profit oil – shared by the equity owners and the government of South Sudan

Production sharing is primarily based on three inputs:

1. Price
2. Production Volume
3. Operating and Capital Expenditures

Price – The oil price is a critical input as it determines the volume of oil that will be allocated to cost oil and thus the level of cost recovery that the contractor will realize. Oil volumes must be monetized in order to calculate the proportion of crude oil production that can be allocated to cost oil. When oil prices fall as they have during the past twelve months, more physical oil is allocated to cost oil to recover the same amount of expenditures.

Production Volumes – The volume of production is the cornerstone of production sharing. Higher volumes mean that there is more oil to share between the contractor and the government.

Operating and Capital Expenditures – The contractor is entitled to recover 100% of all eligible expenditures incurred on the producing property. Cost recovery is restricted to a maximum amount of the monetized crude oil in any

month. For Dar Blend crude the cost recovery maximum is 45%-50% of the crude produced depending upon the license area of delivery. If the actual monetized cost oil is less than the maximum allowed, the surplus allowance is allocated to and shared as profit oil in which the government of South Sudan will share. If the cost oil is greater than the maximum allowed, the excess costs are carried forward to be recovered in future periods.

Crude oil for sales purposes is shared between the government and contractor in cargo lots of either 600 thousand or 1 million barrels; therefore actual monthly allocations for sales may differ from the calculated entitlement share resulting in an over or under lift position for the party which will be adjusted in the following period. Selected entitlement data for the reporting period, as reported by the contractor, is shown in the following table and is unaudited.

	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15
FOB Price	\$97.80	\$88.83	\$83.01	\$79.50	\$70.90	\$64.29	\$46.08	\$30.73	\$29.52	\$41.70	\$46.74	\$49.91
Production (MMbbls)	4.70	4.83	4.68	4.09	4.23	5.18	4.08	5.42	4.42	3.82	5.88	4.60
Expenditures (MM\$)												
Operating	20.42	24.62	29.97	40.56	34.61	14.40	44.35	48.05	52.31	67.13	49.00	56.15
Capital	19.64	20.09	30.64	17.02	16.37	15.25	14.02	15.88	6.63	4.80	22.02	12.60
Total	40.06	44.72	60.61	57.58	50.97	29.65	58.37	63.93	58.94	71.93	71.02	68.76
Entitlement (MMbbls)												
RSS Profit Oil	3.24	3.26	2.96	2.52	2.63	3.58	2.10	2.52	1.82	1.56	3.32	2.41
Nilepet Cost Oil	0.03	0.04	0.06	0.06	0.06	0.04	0.10	0.17	0.16	0.14	0.12	0.11
Nilepet Profit Oil	0.08	0.09	0.08	0.07	0.07	0.09	0.06	0.07	0.05	0.04	0.08	0.06
Government Total	3.36	3.38	3.10	2.64	2.75	3.71	2.26	2.75	2.03	1.74	3.52	2.59
Contractor Oil	1.34	1.45	1.58	1.45	1.48	1.48	1.83	2.67	2.39	2.09	2.36	2.01
Total All Oil	4.70	4.83	4.68	4.09	4.23	5.18	4.08	5.42	4.42	3.82	5.88	4.60
Entitlement (%)												
RSS Profit Oil	68.95%	67.41%	63.37%	61.50%	62.06%	69.02%	51.40%	46.51%	41.24%	40.68%	56.42%	52.53%
Nilepet Cost Oil	0.70%	0.83%	1.25%	1.42%	1.36%	0.71%	2.48%	3.07%	3.61%	3.61%	2.07%	2.40%
Nilepet Profit Oil	1.79%	1.77%	1.68%	1.66%	1.68%	1.77%	1.41%	1.21%	1.09%	1.14%	1.42%	1.40%
Government Total	71.43%	70.02%	66.30%	64.58%	65.10%	71.50%	55.29%	50.79%	45.95%	45.42%	59.91%	56.33%
Contractor Oil	28.57%	29.98%	33.70%	35.42%	34.90%	28.50%	44.71%	49.21%	54.05%	54.58%	40.09%	43.67%
Total All Oil	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 12: Republic of South Sudan Crude Oil Entitlement

During the period of June 1, 2014 to May 31, 2015 South Sudan's crude oil entitlement has ranged from 71.43% to 45.42%. Current entitlement is about 56.0%. The reason for the decrease in the government's entitlement percentage is the reduction in oil price. As noted above, when the oil price drops, more oil is allocated to cost oil in which the government does not share, and less oil is allocated to profit oil in which the government does share. Nile Petroleum is an equity owner in the producing fields and shares in both cost oil and profit oil.

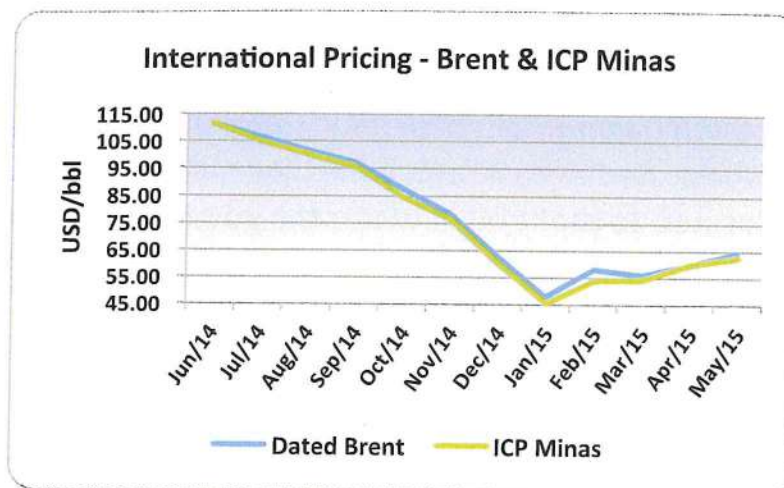
4.4 Market Prices Achieved

Brent crude oil prices, upon which all of the South Sudan Dar Blend oil sales are currently based, ranged from a high of \$111.65 in June 2014 to a low of \$47.86 in January 2015 before settling in the \$60-65 range. The weighted average price for Dar Blend sales for the twelve month reporting period, excluding Nilepet sales, is \$79.49. Despite the high price volatility during the reporting period, the marketing group was able to achieve favorable discount rates through the bid / tender process and therefore obtain competitive prices for South Sudan crude oil. Nile Blend oil sales are based on the Indonesian Crude Price (ICP) Minas. Due to the shut down in the Unity oil fields, no sales of this type of oil were realized during the reporting period; therefore only the simple average price for ICP Minas of \$75.80 is shown in the table for the twelve month period.

The table and graph below illustrates the average monthly official international reference prices for Dated Brent that were incorporated into our Dar Blend contract price formulas and for ICP Minas in our Nile Blend contract price formulas and reflect the steep decline in global oil prices during the reporting period along with the calculated averages.

International Pricing Formula Used in RSS Crude Contracts							
2014	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Dated Brent (Dar)	111.65	106.64	101.61	97.30	87.40	78.39	62.53
ICP Minas (Nile)	111.61	105.06	100.00	95.66	84.46	76.33	60.00
2015	Jan	Feb	Mar	Apr	May	Average	
Dated Brent (Dar)	47.86	58.13	55.92	59.76	64.32	79.49	
ICP Minas (Nile)	45.56	54.11	54.24	59.92	62.70	75.80	

Table 13: Dated Brent and ICP Minas Actual Crude Pricing



Graph 9: International Pricing – Brent vs. ICP Minas

4.5 Sales Price Differentials

The marketing group was able to maintain favorable sales price differentials or discount rates through its bid / tender process and therefore obtain competitive prices in spite of the very difficult period of falling prices for benchmark crudes such as Brent. The realized weighted average price discount for all Dar Blend crude oil sold by the MPM marketing team, excluding Nilepet, was -\$10.41 for the twelve month reporting period. This compares favorably with the -\$9.09 discount achieved in the previous 2013-2014 reporting period when the marketing climate was more positive.

Realized Weighted Average Price Differential							
2014	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Dar Blend	(\$8.67)	(\$11.00)	(\$12.70)	(\$13.81)	(\$12.63)	(\$9.53)	(\$9.69)
Nile Blend	No Sales	No Sales	No Sales	No Sales	No Sales	No Sales	No Sales
2015	Jan	Feb	Mar	Apr	May	Average	
Dar Blend	(\$11.06)	(\$12.21)	(\$9.01)	(\$7.52)	(\$8.46)	(\$10.41)	
Nile Blend	No Sales	No Sales	No Sales	No Sales	No Sales	No Sales	

Table 14: RSS Realized Weighted Average Price Differential

4.6 Global Customer Base

The MPM Marketing Team continued to work at maintaining the customer base for our crude oil to ensure competitive bidding and maximize prices. 39 customers, up from 33 one year ago and including both end users and oil traders, were allowed to bid on our crudes following screening, with seven companies winning one or more cargoes over the marketing period as shown

in Table 15. One of the companies, Petro Diamond, was awarded a Nilepet cargo through its marketing process and is not on the official list of MPM customers.

RSS Customers and Cargoes Loaded (Including Nilepet)							
2014	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Chinaoil					1		
Glencore	2						
Petro Diamond							
Trafigura		1			1		
Unipet	3	4	5	3	3	3	4
Vitol			1	1			
Totals	5	5	6	4	5	3	4
2015	Jan	Feb	Mar	Apr	May		Total
Chinaoil	1				1		3
Glencore	1						3
Petro Diamond		1					1
Trafigura	1	1		1			5
Unipet	1	4	4	3	2		39
Vitol	1						3
Totals	5	6	4	4	3		54

Table 15: RSS Crude Oil Customers and Cargoes Loaded

The following table illustrates the proportionate Dar Blend sales volumes and values made to each of the six companies that purchased RSS crude oil:

Buyer Sales Distribution by Crude Type (Including Nilepet Sales)								
	Nile Blend				Dar Blend			
	Volume (bbls)	%	USD Value	%	Volume (bbls)	%	USD Value	%
Chinaoil	0	0.0%	0	0.0%	2,990,281	8.6%	167,384,073	7.0%
Glencore	0	0.0%	0	0.0%	2,609,278	7.5%	196,843,165	8.2%
Petro Diamond	0	0.0%	0	0.0%	189,840	0.5%	9,136,999	0.4%
Trafigura	0	0.0%	0	0.0%	4,494,055	13.0%	271,167,411	11.4%
Unipet	0	0.0%	0	0.0%	23,107,184	66.6%	1,635,745,581	68.5%
Vitol	0	0.0%	0	0.0%	1,309,597	3.8%	105,964,970	4.4%
Totals	0	0.0%	0	0.0%	34,700,235	100.0%	2,386,242,200	100.0%

Table 16: Buyer Sales Distribution by Crude Type

4.7 Customer Invitations

The following list of customers has been pre-approved by the Marketing Team to be considered as potential buyers of RSS crude oil and can be included in the monthly cargo tender. It should be noted that with the assistance of the Bank of South Sudan a financial assessment of the required level of financial security has been established for each company, which appears on the right side column.

	<u>Invitation List</u>	<u>Activity</u>	<u>Type</u>	<u>Security</u>
1.	Addax Energy	No Activity	Trader	SBLC
2.	Ascon Timpet	No Activity	Trader	SBLC
3.	Augusta Energy	No Activity	Trader	SBLC
4.	Chi'an Wei Ltd	No Activity	Trader	SBLC
5.	China Oil	Award Winner	Refiner	PU + CL *
6.	CNOOC	No Activity	Refiner	Open
7.	Concord Energy	No Activity	Trader	SBLC
8.	Glencore	Award Winner	Trader	SBLC
9.	Gunvor	No Activity	Trader	SBLC
10.	Investsouth (Triton Global Petroleum)	Bidder	Trader	SBLC
11.	Investsouth Co. Ltd	Bidder	Trader	SBLC
12.	Kepu	No Activity	Trader	SBLC
13.	Kernel Oil (Suisse Ltd)	Bidder	Trader	SBLC
14.	LENKOR	No Activity	Trader	SBLC
15.	LOTCO	No Activity	Trader	SBLC
16.	Mena Energy	No Activity	Trader	SBLC
17.	Mercuria	No Activity	Trader	SBLC
18.	Mitsubishi	No Activity	Refiner	SBLC
19.	Money Maker Management	Bidder	Trader	SBLC
20.	Nabta General Trading	Bidder	Trader	SBLC
21.	Nasdec General	No Activity	Trader	SBLC
22.	Petronas	No Activity	Refiner/Equity	SBLC
23.	Petro Diamond*	Award Winner	Trader	SBLC
24.	Royal Energy	No Activity	Trader	SBLC
25.	Safadi Group	No Activity	Trader	SBLC
26.	Sahara Energy	No Activity	Trader	SBLC
27.	Serha Oil	No Activity	Trader	SBLC

28.	Shell	No Activity	Refiner	Open
29.	SK Energy	No Activity	Refiner	SBLC
30.	SOCCAR	No Activity	Refiner/Trader	SBLC
31.	Southex	No Activity	Trader	SBLC
32.	Total	No Activity	Refiner	Open
33.	Toyota Tsusho	No Activity	Refiner/Manufact	Open
34.	Trafigura	Award Winner	Trader	SBLC
35.	Tri Ocean	No Activity	Trader/Equity	SBLC
36.	Trinity Energy	No Activity	Trader	SBLC
37.	Unipet	Award Winner	Refiner	PU
38.	Vitol	Award Winner	Refiner/Trader	SBLC
39.	Zenhua oil Co. Ltd	No Activity	Trader	SBLC

Table 17: Pre-approved Customer List

*NOTE: Petro Diamond was awarded a Nile Petroleum cargo through Nilepet's own marketing process and is not on the official list of MPM customers.

4.8 Marketing Report Card

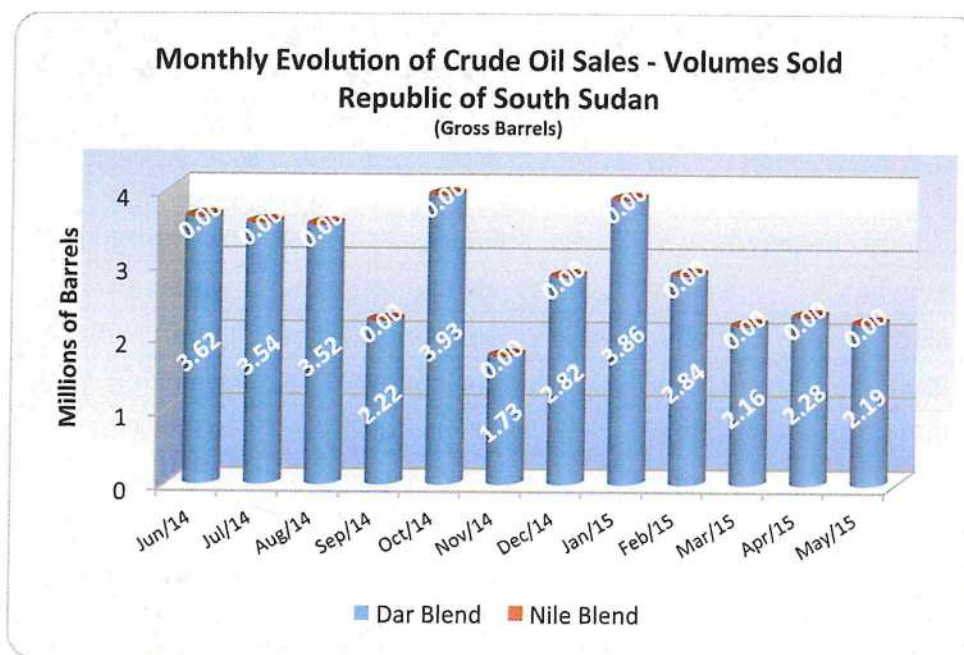
The MPM marketing effort for the period of June 2014 to May 2015 continued to be robust given the extremely difficult global crude oil environment. With supply out-stripping demand and the dramatic fall in prices during the period, the marketing group has clearly demonstrated the capability of the Ministry of Petroleum and Mining staff and the Marketing Team to successfully sell the country's entitlement share of crude oil at the best prices possible. The Ministry of Petroleum and Mining will continue to work hard to monetize our crude oil into the international marketplace at attractive price formulas, contract terms, and in a professional and transparent manner.

The Ministry will also continue to ensure that controls are in place to provide assurance that all oil revenues are documented and that all payments made by buyers are fully accounted for.

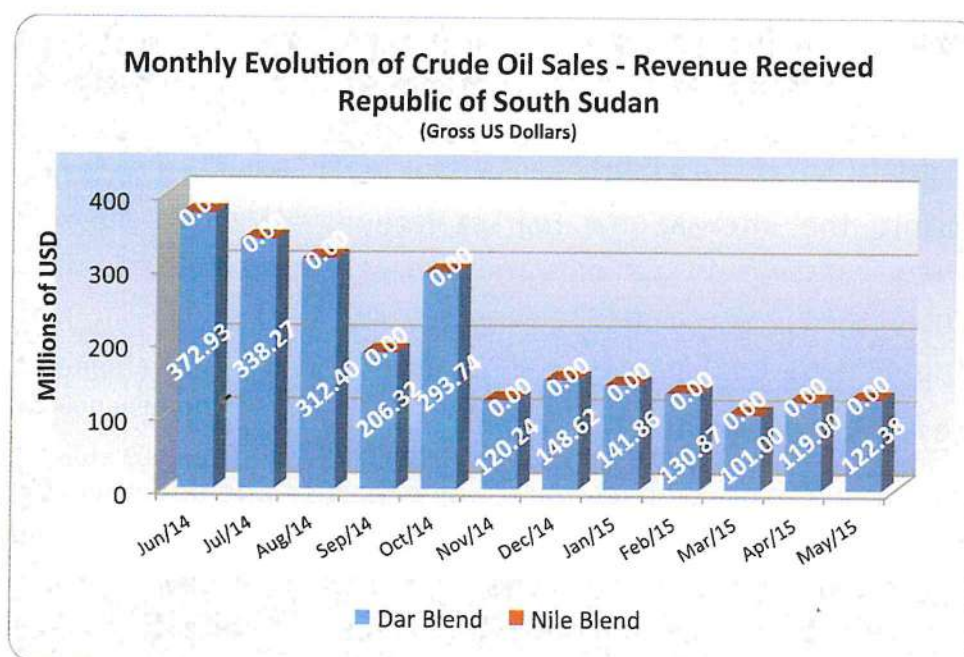
MPM will continue to develop its marketing expertise and add new talent to its work force to address current challenges, help identify marketing opportunities and improve prices. The identification of new buyers and new markets, and the analysis of market behavior and crude oil prices are just some of the areas that will be subject to future development.

The following graphs illustrate our overall performance during the reporting period and also include data for all sales made by Nile Petroleum. There were no Nile Blend oil sales since the Unity oil fields were shut down for the entire

period. The sales month reflects the actual Bill of Lading date (which occasionally occurs in the following month) and not the initial entitlement month resulting in skewed sales statistics.



Graph 10: Monthly Evolution of Crude Oil Sales - Volumes



Graph 11: Monthly Evolution of Crude Oil Sales - Revenues

4.9 Transitional Financial Arrangement and Tariff Payments to Sudan

RSS Payment Obligations to Sudan – For the reporting period of June 2014 to May 2015, the Republic of Sudan has paid or is obligated to make the following payments to Sudan under the terms of The Agreement Concerning Oil and Related Economic Matters:

Description	Per bbl	Quantity / Value
Net Quantity Shipped (Barrels)		34,700,235
Transitional Financial Arrangement (USD)	\$15.00	520,503,525
Less: Invoice Adjustment		(5,400)
Net TFA Obligation		520,498,125
Fees		
Processing	\$1.60	55,520,376
Transportation	\$6.50	225,551,528
Transit	\$1.00	34,700,235
Total Fees	\$9.10	315,772,139
Less: Invoice Adjustment		(3,276)
Net Fees Obligation		315,768,863
Total Payment Obligations (USD)		836,266,988

Table 18: Payments to Sudan

As of the end of May 2015 the remaining balance on the Transitional Financial Arrangement obligation to Sudan is USD 2.02 billion.

The severe decline in oil prices in the latter half of 2014 has resulted in significantly reduced revenues and has put pressure on South Sudan's budget execution. This has caused delays in paying transport related fees and the transitional financial arrangement to Sudan and has resulted in an agreement to settle the outstanding obligation in a series of transfers in kind. The agreement to this arrangement has not yet been finalized and the pricing mechanism is under discussion regarding how the netback price should be calculated.

The valuation for settlement is to be based on the average FOB prices realized for South Sudan cargo sales at Port Sudan. The only netback deduction being made to this price for purposes of this presentation is for processing at Al Jabalain since South Sudan is obligated to provide clean oil to Sudan. No deductions are made for transit, transport or transitional financial arrangement since these fees are not payable if the oil is not

shipped through Port Sudan as per the terms of the 2012 Cooperation Agreement on Oil.

Payments made to date to Sudan under this arrangement are calculated by the MPM as follows:

	Mar/15	Apr/15	May/15	Total
Average Monthly FOB Price	\$46.91	\$52.38	\$55.89	
Less: Processing Fee at Al Jabalain	\$1.60	\$1.60	\$1.60	
Net Price for Valuation	\$45.31	\$50.78	\$54.29	
Net Barrels Transferred to Sudan	14,969.3	49,772.7	62,855.2	127,597.2
Value for Settlement	678,209.09	2,527,291.80	3,412,408.81	6,617,909.06

Table 19: Payment In Kind to Sudan

4.10 Outstanding Issues

Data in Khartoum

A significant amount of oil field data which is owned by South Sudan after independence remains in storage in Khartoum. The RSS is responsible for the data and is currently constructing its own storage facility. The data has been fully inventoried and is ready for relocation to South Sudan. The data is important to the RSS to support the design and implementation of effective IOR/EOR programs, assist with the development of a new reserve assessment and to support new exploration promotion programs.

Financial Audits of Contractors

An initial assessment of the Contractors' audit status has been completed by the firm Ernst and Young and a report has been issued to the Ministry. The financial and operational records for the periods subject to audit are located in Khartoum and the Contractors have offered to host the audits in that location. Final detailed audit work is being undertaken by Ernst and Young and audit reports will be issued to the ministry after which further action may be required by the MPM.

PART 5 – FUTURE ACTIVITIES

May 2015 and Beyond

5.1 Re-Start Unity State Oil Production

The restart of production operations in Unity State remains dependent on the security situation. The main oil processing facilities are secured but the oil fields cover a large geographic area and the risk remains high in outlying areas where many of the oil wells are located. Once security is stabilized the contractor can return to the area to assess damage and determine what remediation work needs to be done and the materials, supplies and manpower that will be required. Only after an assessment is completed can a time line for the return to production be reasonably determined.

5.2 Improved / Enhanced Oil Recovery Opportunities

The oil production rates in the South Sudan oil fields are rapidly declining with increasing water cut. One of the options being considered by the Ministry of Petroleum and Mining and the Contractors is the implementation of Improved Oil Recovery (IOR) / Enhanced Oil Recovery (EOR) schemes. IOR / EOR projects have the potential to arrest the decline, significantly increase the amount of recoverable oil from the reservoir and prolong the life of the field.

There are various methods and technologies available for IOR / EOR projects that are being considered such as thermal, polymer flooding and gas injection, but they generally require significant investment and have a fairly long payout period. As a result, it may be necessary in some instances for the government to renegotiate license extensions on existing producing oil fields in order to ensure that the additional investments will be beneficial to the government and economically fair to the contractors.

5.3 Infrastructure Options

5.3.1 Refinery Projects

The refineries proposed would work to refine crude oil from different oil fields in the RSS, and produce mainly diesel, kerosene, naphtha and residue (Heavy Fuel Oil). The locations of those

facilities were dictated by the fact that there is a need to reduce the burden of transportation to the consumption centers. In addition to the proximity of those locations to the oil fields it also supports the provision of quick solutions to the immediate fuel needs for different production activities such as transportation, agriculture and power generation.

Thiangrial Refinery in Upper Nile State

- Design capacity is 20,000 BPD to be constructed in two modular phases, phase one 10,000 BPD and another phase after two years of 10,000 BPD.
- Main petroleum fractions/products: Diesel, kerosene, naphtha and HFO (Heavy Fuel Oil).
- Financer: Frontiers Resource Group, USA; Contractor Ventech Engineering, USA.
- Status: Construction work has been stopped due to the political crises in South Sudan.

Bentiu Refinery, Unity State

- Design capacity: 7,000 BPD modular construction.
- Operational Capacity: 5000 BPD
- Additional expansion to the facility would be 25,000 BPD including complex facilities to cater for cracking the long residue in order to increase the yield of light products.
- Financer: Saffinat Limited of Russia; Constructed by Saffinat
- Status: The refinery construction was completed in January 2014 and pre-commissioned before it was stopped because of the crises in South Sudan.
- It should resume once the security situation is cleared.

Akon Refinery, Warrap State

- The initial proposed capacity: 50,000 BPD but it is likely to be reduced.
- Financier: yet to be identified.

- Status: This year, 2015, some progress may be witnessed regarding this project.

Pagak Refinery, Upper Nile State

- Proposed capacity: 50,000 BPD.
- Financier: Black Rhino, USA.
- Status: Feasibility study is being finalized by Foster Wheeler; project has been put on hold.

5.3.2 Fuel Depot Projects

A number of fuel depots were proposed to be constructed in different locations in the country since 2012, but none of these have found its way to execution due to lack of funding. Now, with a new approach being adopted by the MPM, Nilepet is assuming responsibility for funding the fuel storage terminals, and it is expected that progress will be realized in the near future.

5.3.3 Pipeline Projects

- The first phase of the feasibility study for an alternative export pipeline was completed and presented to the RSS Cabinet in November, 2013.
- Two export pipeline routes have been studied and compared, in order to facilitate a decision as to which should be the best solution that serves the interests of the Republic of South Sudan; however due to the crisis, a decision has not yet been made. It is expected to be finalized soon.
- The inland alternative evacuation pipeline from the Tharjath oil fields – Unity state to Paloch – Upper Nile State has been started. The conceptual design is completed and we expect to proceed with the project subject to security considerations.

5.4 Products Supply

The Republic of South Sudan primarily consumes distillates in the form of diesel for truck fuel. Products are currently imported via Kenya. The supply of products for domestic consumption is being handled by Nilepet along with

other private companies. The Ministry of Petroleum and Mining, South Sudan and the Government of Kenya have an agreement in place regarding the allocation of ullage. The MPM also provides the formal approval for companies to pick up and transport product from Kenya. Nilepet is responsible for product distribution within South Sudan.

Downstream depots and import routes are illustrated below.

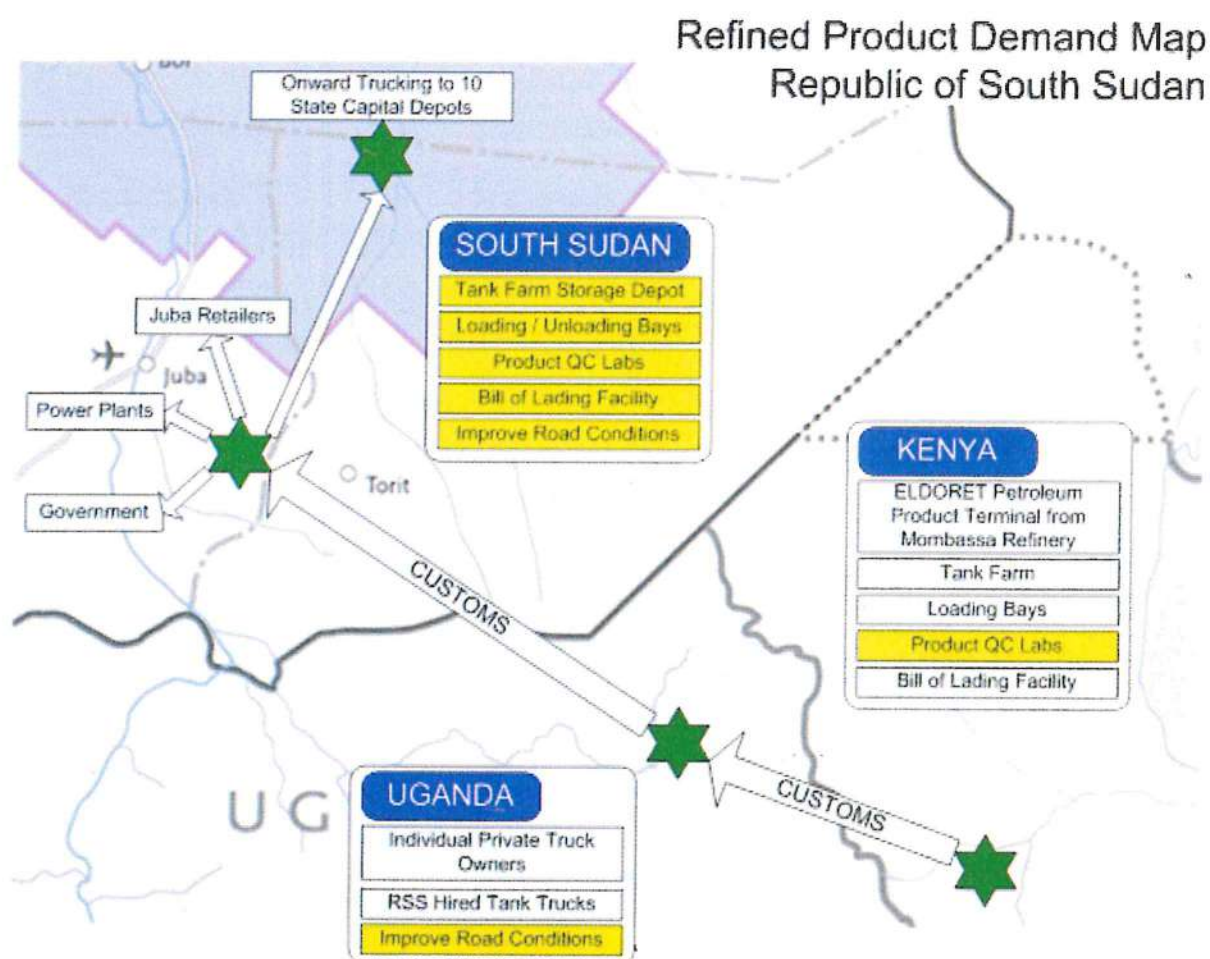


Figure 4: RSS Refined Product Demand Map

5.5 Challenges and Opportunities Ahead

The Ministry of Petroleum and Mining Marketing Group has both challenges and opportunities ahead. We have highlighted in this report many of the successes and achievements since the restart of production in South Sudan. As we celebrate the fourth anniversary of our country's independence, we have clearly proven our ability to market our crude oil in a transparent manner and

at attractive international prices. Marketing staff are located at the main MPM office in Juba and at the marine terminal in Port Sudan to oversee the tanker loadings of the government cargoes. With the guidance of the marketing team these staff members have assumed complete responsibility for the marketing of our country's crude oil.

The number of workstations and the amount of quality office space for employees has increased. Training has been improved through the offerings of the contractors and the crude oil buyers and advisor support is now generally limited to administrative oversight. The strengthened capacity of our staff, even as we continue to experience deficiencies in manpower and financial resources, is notable. The MPM website continues to be improved and will eventually house public marketing information and contacts.

The MPM continues to work through many of the internal organizational challenges to improve the performance of the people within the department. Some of our initiatives include:

- Continuous improvement in education and training for our MPM staff;
- Clearly defined roles & responsibilities for all levels within MPM;
- Developing an internet database platform for all employees to utilize daily;
- Improving internal and external communication of marketing information;
- Developing a seamless working relationship with other ministries.

Work has begun, but more hard work is needed to build upon our past experiences...but the marketing road ahead remains bright.....!



Closing Remarks

"This Marketing Report is the third issue by the Ministry of Petroleum and Mining, Republic of South Sudan. It provides an overview of world oil markets and fundamentals, price forecasts, oilfield reserves, and the MPM marketing performance. It offers an outline of our infrastructure plans such as refineries and storage depots and provides insight into our efforts to ensure transparency in all that we do.

The young people in our marketing group have demonstrated their understanding of the fundamentals of crude oil marketing and their enthusiasm for their work. But we cannot stop here. Crude oil marketing must continue to develop with buyer and market diversification and a better understanding of global economics and pricing analysis. These activities will be enhanced once MPM establishes on-line communications with the global oil markets and with the main world crude oil pricing center Platts, London. The communication delay is the result of the current instability in the oil sector since the shutdown, which has not allowed either subscriptions arrangements to Platts to be completed or the installation of effective internet connections.

Our Health, Safety and Environment department has trained internally and abroad in 2014 – 2015 at a cost of USD 77 thousand, highlighting the MPM's strong commitment to our people and our environment and enhancing our ability to monitor and enforce regulation in the petroleum and mining sectors.

Our goal with this and subsequent editions of the MPM Marketing Report is to provide you with comprehensive information which clearly explains the monetization of our country's crude oil. Our emphasis is on transparency and full compliance with our legislative requirements for information disclosure. Our efforts will not end with this report – we will continue to look at ways to improve our marketing operations and add value. It is our hope that as we move forward we will more fully capture the new developments occurring within the Ministry on the path of reaching the goal of energy independence, and a greater prosperity for our people."

Sincerely,



Machar Aciek Ader,
1st Undersecretary MPM