

27 January 2012

## **BAYFIELD ENERGY HOLDINGS PLC**

### **Operational Update**

Bayfield Energy Holdings plc ("Bayfield", the "Company" or the "Group"), (AIM: BEH), an upstream oil and gas exploration and production company, today provides an update on its activities in Trinidad, South Africa and Russia.

#### **TRINIDAD**

##### **East Galeota**

##### **Spud of exploration and appraisal well EG8**

The first well in Bayfield's exploration and appraisal programme in the offshore Galeota Licence Area is expected to spud on 27 January 2012. The Rowan Gorilla III is already on location and jacked-up in preparation for the drilling of the well, designated EG8, in approximately 135 ft of water to a total depth of approximately 8,700 ft (measured depth below rotary table) and is located close to the north east boundary of the licence area. EG8 is a deviated exploration well intended to appraise the Lower Pliocene to Upper Miocene stacked shallow marine sandstone reservoirs encountered in previous offset wells EG2 (1978) and EG5 (1985). Both of these earlier wells encountered and tested gas at various levels and EG2 tested oil at a rate of 1,000 bopd from the E sand. In EG8, several primary exploration targets have been identified by direct hydrocarbon indicators highlighted through reprocessing of 3D seismic data acquired by Bayfield in 2010.

Following completion of this well, it is planned that the rig will be relocated approximately four kilometres south west of EG8 to drill the second well in Bayfield's programme, designated EG7.

##### **Exploration and appraisal drilling programme**

In 2012, Bayfield expects to drill EG7, EG8 and at least one well to the north east of the Trintex field. The remaining wells required to fulfil its seven-well obligation are planned to be drilled in 2013.

As part of the process of refining its drilling plans, Bayfield has secured the approval of the Ministry of Energy and Energy Affairs and its partner in the Galeota Licence, Petrotrin, to vary certain of the well programmes specified in the Licence Agreement and Farm-out Agreement, primarily to lessen the required depths, where geological data does not justify such targets. The well programmes and drilling schedule will be subject to continuing review by all parties and may be subject to further change based on the results of the initial wells.

The objective of the Company's rig contracting strategy is to ensure, at a minimum, that a drilling unit is available in Trinidad to drill the wells required to satisfy the licence obligations and also to provide flexibility in relation to any additional appraisal and development drilling requirements Bayfield might wish to proceed with in the shorter term. Bayfield's contract with Rowan meets these requirements and also allows for deployment of the rig to other Operators in Trinidad should the board consider it beneficial to secure a break in the programme to allow for fuller interpretation of well results and early consideration of development options for East Galeota.

## **Trintes Field**

### **Slant rig operations**

Contribution from two new wells drilled by the Slant Rig #2 in the fourth quarter of 2011 has allowed gross production to increase to 1,700 bopd (1,105 bopd net to Bayfield) as at the date of this release. Well B10, a short side track completed in November, is presently producing at over 160 bopd and well B8, the first of the longer side tracks to be drilled with this rig, is producing in excess of 400 bopd. B8 encountered net pay of approximately 225 feet making this well currently the most prolific in Trintes and adding significantly to the Company's confidence in the validity of assumptions regarding productivity of the other planned long sidetracks. The redevelopment drilling programme for Trintes includes an additional 9 long side tracks and 12 extended reach wells.

### **Production**

Gross production from the Trintes field for 2011 averaged 1,197 bopd (778 bopd net to BEH). In December 2011 and January 2012 production has been impacted significantly by extreme adverse weather conditions that have restricted personnel movements by boat between the shore base and the platforms and also as a consequence of repairs that were required to the main oil export pipeline between the field and the onshore tank farm. The repair works undertaken necessitated curtailment of production from 15 December to 8 January and the impact of adverse sea conditions hampered work to the extent that production was shut-in between 28 December and 1 January. As a result, average gross production for December was 1,151 bopd (748 bopd net to BEH) and for January to date 791 bopd (514 bopd net to BEH). Following easing of the weather conditions, the reactivation of the hydraulic oil pumping system on Bravo platform and the completion of the B8 well, current gross production from the field is approximately 1,700 bopd (1,105 bopd net to BEH).

### **Platform refurbishment**

New engineering studies preparatory to the work programme for the refurbishment of Alpha platform were completed in the fourth quarter of 2011. The studies followed sand blasting of paintwork which allowed for more detailed inspection of the platform structure. As a consequence of the work, Bayfield has determined that it is not safe to continue to conduct rig operations on Alpha platform and has concluded that the costs of remedial work cannot be justified commercially. In the view of management, however, the reserves that are planned to be targeted from new wells that were planned to be drilled from Alpha can, instead, be accessed by new wells from Bravo and Charlie platforms. Bravo and Delta platforms have already been approved for rig operations by the certifying authority in Trinidad. Charlie platform has been shut-in and unattended for over six years but, following inspection, Bayfield has determined that it can be brought to a suitable condition for rig and production operations at an additional cost of around US\$10-15 million and has begun work to do so.

## **SOUTH AFRICA**

Bayfield received an Acceptance Letter from the Petroleum Agency of South Africa ("PASA") dated 28 November 2011 which confirmed that its application for the Pletmos inshore Licence had been approved by the Mineral Resources Minister. Authority to execute licence documentation is delegated to PASA. The Company has filed all documentation required by PASA following the Acceptance Letter and is now awaiting agreement of the formal wording of the exploration right. Once the formal wording is agreed, a date will be set for the signature of the licence documentation.

Following signature of the licence, Bayfield's initial focus will be on the reprocessing of existing 2D seismic data over the block which is planned to be completed during 2012. Other work streams will

allow the programme for acquisition of new 2D seismic data to be undertaken as from December 2013.

## **RUSSIA**

Interpretation of the reprocessed 2D seismic data acquired over the Karalatsky license area in the first quarter of 2011 has not identified any prospects that would justify further investment in an exploration well. Accordingly, Bayfield is taking steps to prepare for the surrender of the Karalatsky Licence and the orderly dissolution of Astrakhanskaya Gas and Oil Company ("AGOC"), the local operating company in which it holds a 74% interest. This decision has been taken following consultation with the Astrakhan Regional Government, its co-shareholder in AGOC, and management does not believe that Bayfield is exposed to any financial penalty or sanction in consequence. The termination of operations in Russia by Bayfield will result in a non-cash write-down of approximately US\$ 3.5 million.

## **Incentive plans**

Certain executives and employees of the Company holding options over an aggregate of 6,900,000 shares have agreed to surrender their rights under the existing option agreements in consideration for the grant of new awards providing rights for the issuance of up to 6,900,000 shares granted under and subject to the rules of the Company's long term incentive plan. The performance conditions and vesting date for such awards are identical to those relevant to awards made at the date of IPO on 18 July 2011 and are linked to the issue price of £0.60 per share. These changes mean that equity incentivisation for substantially all executives and employees is now on identical terms and more closely aligns the interests of former option holders with those of shareholders in establishing a new vesting date of July 2014. The changes have no impact on the potentially fully diluted share capital.

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