

PANTHEON RESOURCES PLC

INTERIM REPORT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

Pantheon Resources plc, the AIM-quoted oil and gas company with a 50% working interest in several projects in Tyler and Polk Counties, East Texas, announces its results for the six months ended 31 December 2015.

Highlights

Operational

- Successfully drilled two discovery wells: VOBM#1 (Polk County), VOS#1 (Tyler County), Texas, USA
- VOBM#1
 - Encountered 62ft of net pay, flow tested at over 1,500 boepd
 - Potential to materially exceed pre-drill P50 resource estimate
 - First commercial production revenues expected Q2 2016
- VOS#1
 - Perforated 107ft of 270ft of net hydrocarbon bearing sandstone, flow tested at over 750 boepd, despite compromised wellbore conditions
 - Flow rates could improve by up to 3x by applying a standard fracture stimulation on the well
 - Potential to materially exceed pre-drill P50 resource estimate
 - Fracture stimulation to be completed upon sourcing of equipment and operating team and in conjunction with the upcoming drilling programme, targeting Q2 2016

Financial

- Reported loss after tax of £439,613 (2014: £612,005)
- Subsequent to period end, the Company announced the successful completion of an equity placement which raised \$30m
- Company now fully funded to exploit full potential of its existing acreage position and to acquire additional acreage if/where appropriate

Outlook

- Currently finalising agreements for the processing and sale of natural gas from VOBM#1 well and for future wells in the West AA Discovery, with first sales expected to occur in Q2 2016
- Presently finalising preparations to commence a multi-well drilling programme
- Current plans for the first three wells in the programme are as follows:
 - Well 1
 - Horizontal development well in West AA Discovery in Polk County, a step out from the VOBM#1 well, estimated to commence April 2016
 - Ultimate recoveries for a modelled horizontal well estimated at up to 200% to 300% that of a vertical well
 - Well 2
 - Additional step out horizontal development to be drilled in West AA Discovery
 - Well 3
 - A large step out appraisal well in LP2 Offset Discovery in Tyler County
 - Significant potential given the size of the hydrocarbon bearing sandstone encountered in the VOS#1 well and the analysis of seismic data
- Subsequent wells in the programme, which may utilise two rigs given the current low rates, will be a mix of development, appraisal and exploration wells testing other highly prospective targets in the Company's acreage. Planning and preparation to finalise the location of these drilling prospects is currently underway
- The Company's strategy remains to undertake a multi-well drilling programme, proving the scale and quality of its acreage, whilst taking advantage of the current low cost environment

Operational success and delivery

The financial Period to 31 December 2015 was one of the most significant in your Company's history, during which we drilled two highly significant discovery wells in two separate counties that were identified following the extensive geological study undertaken in conjunction with the experts at the independent Bureau of Economic Geology at the University of Texas at Austin over recent years. The 100% success rate of wells drilled to date validates the integrity of the geological model.

Of the two discovery wells, the first, VOBM#1, was in Polk County Texas in our West AA Prospect offsetting the prolific Double A Wells Field. The VOBM#1 well encountered 62ft of net pay and flow tested at over 1,500 boepd on a 12/64ths choke. Based upon the data gathered, the operator believes this well has the potential to materially exceed the pre-drill P50 resource estimate. The operator is close to concluding arrangements for the processing and distribution of natural gas production for this well and for future wells in the prospect and first commercial production revenues are expected to occur in Q2 2016.

The second discovery well, VOS#1, was drilled in Tyler County, 4.5 miles from our partner's existing LP2 discovery well. (Pantheon has no interest in the LP2 well because it was drilled prior to Pantheon's involvement in the project.) VOS#1 encountered 270ft of hydrocarbon bearing sandstone of which 107ft was perforated and flow tested at over 750 boepd on 12/64ths choke after initially producing at considerably higher rates. Diagnostics indicated a restricted flow from the well believed to be a result of permeability variations along the wellbore together with the presence of a potential blockage caused by the use of heavy drilling mud.

Analysis has confirmed that these flow rates should be materially improved by applying a standard fracture stimulation procedure as the optimal remediation technique. This is considered a straightforward procedure in a vertical hole and the operator is confident of a successful outcome. Similar fracture stimulation techniques were used to enhance recovery in a number of wells in the analogous Double A Wells field. It is believed that such a procedure could improve flow rates by up to three times the initial flow rates, however it will take a period of sustained production data before a final assessment on improved flow rates can be made. This procedure is currently being planned and will be completed in conjunction with the upcoming drilling programme after the necessary equipment and operating team have been sourced. The target for this is Q2 2016. As with the VOBM#1 well, the operator believes the VOS#1 well has the potential to materially exceed the pre-drill P50 resource estimate.

Financial results – Cost controlled and liquidity position enhanced post Period end

The Group continued its tight control of costs, recording a loss of £439,613 (2014: £612,005) for the six month period.

In March 2016, the Company completed an oversubscribed equity placing to raise US\$30 million (gross) from new and existing institutional investors. In the context of an extremely difficult macroeconomic backdrop for the energy sector, this demonstrates a tremendous vote of confidence from the institutional investment community in the quality of the project and of the Company. The Company is now fully funded to exploit commercially the full potential of our acreage position in terms of both drilling and acreage leasing, taking advantage of materially lower costs in the mid and upstream sectors of the industry.

Outlook – An active drilling programme across the licence area to capitalise on a successful 2015 programme

It is the Company's intention to actively develop and prove up the prospect portfolio at a time of low costs and greater availability of quality equipment and services. The operator is currently finalising preparations to commence its 2016 drilling programme. The first well will be a step out development well to the existing VOBM#1 discovery well in Polk County and will be drilled horizontally. Modelling suggests that the ultimate recoveries of a horizontal well could be up to 200% to 300% that of a vertical well. Immediately following that well, a further horizontal step out development well will be drilled in Polk County. Upon completion of that well, the operator intends to move operations to Tyler County where it plans a large step

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out appraisal well to the VOS#1 discovery well. Given the very large section of hydrocarbon bearing sandstone encountered in VOS#1, this well has the potential to be significant. Planning and analysis to identify drilling prospects for the rest of the programme is ongoing.

It is estimated that drilling operations will commence on the first step out development well in Polk County in April 2016.

Concurrent to drilling operations, the operator plans to undertake the fracture stimulation procedure on VOS#1 in Tyler County, estimated to occur in Q2 2016.

Pantheon CEO Jay Cheatham commented that: *“This has been one of the most significant periods in the Company’s history, both operationally and financially. The successful drilling of both the VOBM#1 and VOS#1 wells further validates the integrity of the geological model. Our success and low cost structure did not go unnoticed by the institutional investment community which acknowledged our approach and, despite obvious challenges facing the energy sector, significantly oversubscribed the Company’s recent US\$30 million placement.*

“Now fully funded to actively develop and exploit our acreage position, the Company intends to take advantage of the current low cost environment and commence the next stage of our promising drilling programme into 2016. We will also look for opportunistic additions to our acreage position if/where appropriate.”

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2015**

| | 6 months ended 31 December 2015 (unaudited) £ | 6 months ended 31 December 2014 (unaudited) £ | Year ended 30 June 2015 (audited) £ |
|--|---|---|---|
| Continuing operations | | | |
| Revenue | 381 | 2,190 | 3,389 |
| Cost of sales | (476) | (1,726) | (230) |
| Gross (loss)/profit | (95) | 464 | 3,159 |
| Administrative expenses | (386,896) | (398,243) | (778,779) |
| Share-based payments | (53,812) | (215,250) | (376,688) |
| Operating loss | (440,803) | (613,029) | (1,152,308) |
| Interest receivable | 1190 | 1,025 | 3,408 |
| Loss before taxation | (439,613) | (612,005) | (1,148,900) |
| Taxation | - | - | - |
| Loss for the period | (439,613) | (612,005) | (1,148,900) |
| Other comprehensive income/(loss) for the period: | | | |
| Exchange differences from translating foreign currency | 1,321,191 | 812,908 | 645,921 |
| Total comprehensive income/loss for the period | 881,578 | 200,903 | (502,979) |
| Attributable to: | | | |
| Equity holders of the company | 881,578 | 200,903 | (502,979) |
| Loss per ordinary share | | | |
| - continuing operations: (note 2) | | | |
| - Basic and diluted | (0.22)p | (0.42)p | (0.67)p |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2015**

| | Share capital £ | Share premium £ | Retained losses £ | Currency reserve £ | Equity reserve £ | Total Equity £ |
|--|-----------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------------|
| Group | | | | | | |
| At 30 June 2015 | 1,963,564 | 38,822,059 | (20,313,141) | 920,469 | 376,688 | 21,769,639 |
| Net loss for the period | - | - | (439,613) | - | - | (439,613) |
| <i>Other comprehensive income:</i> | | | | | | |
| Foreign currency translation | - | - | - | 1,321,191 | - | 1,321,191 |
| Total comprehensive income for the period | - | - | (439,613) | 1,321,191 | - | 881,578 |
| Share-based payments | | | | | | |
| Issue of share options | - | - | - | - | 53,812 | 53,812 |
| Balance at 31 December 2015 | 1,963,564 | 38,822,059 | (20,752,754) | 2,241,660 | 430,500 | 22,705,029 |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2014**

| | Share capital £ | Share premium £ | Retained losses £ | Currency reserve £ | Equity reserve £ | Total Equity £ |
|---|-----------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------------|
| Group | | | | | | |
| At 30 June 2014 | 1,020,998 | 21,915,804 | (19,219,576) | 274,548 | 55,335 | 4,047,109 |
| Net loss for the period | - | - | (612,005) | - | - | (612,005) |
| <i>Other comprehensive income:</i> | | | | | | |
| Foreign currency translation | - | - | - | 812,908 | - | 812,908 |
| Total comprehensive income for the period | - | - | (612,005) | 812,908 | - | 200,903 |
| Capital Raising | | | | | | |
| Issue of shares | 926,097 | 17,595,875 | - | - | - | 18,521,972 |
| Issue of shares in lieu of fees | 16,469 | 312,882 | - | - | - | 329,351 |
| Issue costs | - | (1,002,502) | - | - | - | (1,002,502) |
| Share-based payments | | | | | | |
| Issue of options | - | - | - | - | 215,250 | 215,250 |
| Transfer of previously expensed share based payment on cancellation of options | - | - | 55,335 | - | (55,335) | - |
| Balance at 31 December 2014 | 1,963,564 | 38,822,059 | (19,776,246) | 1,087,456 | 215,250 | 22,312,083 |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015**

| | Share capital £ | Share premium £ | Retained losses £ | Currency reserve £ | Equity reserve £ | Total Equity £ |
|---|-----------------------|-----------------------|-------------------------|--------------------------|------------------------|----------------------|
| Group | | | | | | |
| At 1 July 2014 | 1,020,998 | 21,915,804 | (19,219,576) | 274,548 | 55,335 | 4,047,109 |
| Net loss for the year | - | - | (1,148,900) | - | - | (1,148,900) |
| Other comprehensive income: | | | | | | |
| Foreign currency translation | - | - | - | 645,921 | - | 645,921 |
| Total comprehensive income for the year | - | - | (1,148,900) | 645,921 | - | (502,979) |
| Capital Raising | | | | | | |
| Issue of shares | 926,097 | 17,595,875 | - | - | - | 18,521,972 |
| Issue of shares in lieu of fees | 16,469 | 312,882 | - | - | - | 329,351 |
| Issue costs | - | (1,002,502) | - | - | - | (1,002,502) |
| Share-based payments | | | | | | |
| Issue of share options | - | - | - | - | 376,688 | 376,688 |
| Transfer of previously expensed share-based payment on cancellation of options | - | - | 55,335 | - | (55,335) | - |
| Balance at 30 June 2015 | 1,963,564 | 38,822,059 | (20,313,141) | 920,469 | 376,688 | 21,769,639 |

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015**

| | 31 December 2015 (unaudited) £ | 31 December 2014 (unaudited) £ | 30 June 2015 (audited) £ |
|--|---|---|-----------------------------------|
| ASSETS | | | |
| Non-Current Assets | | | |
| Exploration and evaluation assets (note 3) | 22,480,230 | 14,922,655 | 16,406,313 |
| Property, plant & equipment | 2,243 | - | 3,589 |
| | <u>22,482,473</u> | <u>14,922,655</u> | <u>16,409,902</u> |
| Current Assets | | | |
| Trade and other receivables | 215,308 | 585,270 | 182,263 |
| Cash and cash equivalents | 124,916 | 6,943,806 | 5,265,985 |
| | <u>340,224</u> | <u>7,529,076</u> | <u>5,448,248</u> |
| Total assets | <u>22,822,697</u> | <u>22,451,731</u> | <u>21,858,150</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 117,668 | 139,648 | 88,511 |
| Total liabilities | <u>117,668</u> | <u>139,648</u> | <u>88,511</u> |
| Net assets | <u>22,705,029</u> | <u>22,312,083</u> | <u>21,769,639</u> |
| EQUITY | | | |
| Capital and reserves | | | |
| Share capital | 1,963,564 | 1,963,564 | 1,963,564 |
| Share premium | 38,822,059 | 38,822,059 | 38,822,059 |
| Retained losses | (20,752,754) | (19,776,246) | (20,313,141) |
| Currency reserve | 2,241,660 | 1,087,456 | 920,469 |
| Equity reserve | 430,500 | 215,250 | 376,688 |
| | <u>22,705,029</u> | <u>22,312,083</u> | <u>21,769,639</u> |
| Shareholders' funds | <u>22,705,029</u> | <u>22,312,083</u> | <u>21,769,639</u> |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2015**

| | 6 months ended 31 December 2015 (unaudited) £ | 6 months ended 31 December 2014 (unaudited) £ | Year ended 30 June 2015 (audited) £ |
|---|---|---|---|
| Net cash outflow from operating activities | (137,425) | (337,888) | (497,522) |
| Cash flows from investing activities | | | |
| Funds used for drilling and exploration | (5,004,834) | (11,203,412) | (12,719,946) |
| Interest received | 1,190 | 1,025 | 3,408 |
| Purchase of plant and equipment | - | - | (4,037) |
| Net cash outflow from investing activities | (5,003,644) | (11,202,387) | (12,720,575) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | - | 18,521,972 | 18,521,972 |
| Issue costs | - | (673,152) | (673,151) |
| Net cash inflow from financing activities | - | 17,848,820 | 17,848,821 |
| Net (decrease)/increase in cash and cash equivalents | (5,141,069) | 6,308,545 | 4,630,724 |
| Cash and cash equivalents at the beginning of the period | 5,265,985 | 635,261 | 635,261 |
| Cash and cash equivalents at the end of the period | 124,916 | 6,943,806 | 5,265,985 |

RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | 6 months ended 31 December 2015 (unaudited) £ | 6 months ended 31 December 2014 (unaudited) £ | Year ended 30 June 2015 (audited) £ |
|--|---|---|---|
| Operating loss from continuing operations | (440,803) | (613,029) | (1,152,308) |
| Share-based payment charge | 53,812 | 215,250 | 376,688 |
| (Increase)/decrease in trade and other receivables | (33,045) | (393,183) | 9,824 |
| Increase/(decrease) in trade and other payables | 29,157 | (30,143) | (81,280) |
| Depreciation | 1,346 | - | 448 |
| Effect of translation differences | 252,108 | 483,217 | 349,106 |
| Net cash outflow from operating activities | (137,425) | (337,888) | (497,522) |

**NOTES TO THE FINANCIAL INFORMATION
FOR THE PERIOD ENDED 31 DECEMBER 2015**

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

1.1. Basis of preparation

This financial information has been prepared using the historical cost convention. In addition, the financial information has been prepared based on International Financial Reporting Standards, as adopted by the European Union (“IFRS”), including IFRS 6 “Exploration for and Evaluation of Mineral Resources”.

This interim report has been prepared on a basis consistent with the Group’s expected accounting policies for the year ending 30 June 2016. These accounting policies are the same as those set out in the Group’s Annual Report and Financial Statements for the year ended 30 June 2015, which are available from the registered office or the company’s website (www.pantheonresources.com).

The Group financial information is presented in UK pounds sterling and is unaudited. The interim financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the year ended 30 June 2015 have been taken from the Group’s statutory accounts for that financial year, which have been reported on by the Group’s auditors and delivered to the Registrar of Companies. The auditors’ report on those accounts was unqualified, did not contain references to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 (2) or 498 (3) of the Companies Act 2006.

1.2. Basis of consolidation

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

All the companies over which the Company has control apply, where appropriate, the same accounting policies as the Company.

1.3. Foreign currency translation

(i) Functional and presentational currency

The financial statements are presented in Pounds Sterling (“£”), which is the functional currency of the Company and is the Group’s presentation currency.

Items included in the Company’s subsidiary entities are measured using United States Dollars (“US\$”), which is the currency of the primary economic environment in which they operate.

**NOTES TO THE FINANCIAL INFORMATION
FOR THE PERIOD ENDED 31 DECEMBER 2015**

(ii) Transactions and balances

Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange gain or loss is dealt with in the income statement.

The assets, liabilities and the results of the foreign subsidiary undertakings are translated into Sterling at the rates of exchange ruling at the year end. Exchange differences resulting from the retranslation of net investments in subsidiary undertakings are treated as movements on reserves.

1.4. Cash and cash equivalents

The company considers all highly liquid investments, with a maturity of 90 days or less to be cash equivalents, carried at the lower of cost or market value.

1.5. Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilized.

1.6. Exploration and development costs

The Group follows the 'successful efforts' method of accounting for exploration and evaluation costs. All costs associated with oil, gas and mineral exploration and investments are capitalised on a project by project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general corporate overheads. If an exploration project is successful, the related expenditures will be transferred to Developed Oil and Gas Properties and amortised over the estimated life of the commercial reserves on a unit of production basis. Where a licence is relinquished or project abandoned, the related costs are written off. Where the Group maintains an interest in a project, but the value of the project is considered to be impaired, a provision against the relevant capitalised costs will be raised.

The recoverability of all exploration and development costs is dependent upon the discovery of economically recoverable reserves, the ability of the group to obtain necessary financing to complete the development of the reserves and future profitable production or proceeds from the disposition thereof. When production commences the accumulated costs for the relevant area are transferred from intangible fixed assets to tangible fixed assets as 'Developed Oil & Gas Assets' or 'Production Facilities and Equipment', as appropriate.

Amounts recorded for these assets represent historical costs and are not intended to reflect present or future values.

Exploration and Development costs in relation to the Tyler & Polk County projects are accounted for pursuant to the Successful Efforts method of accounting. Accordingly, the exploration and evaluation asset's carrying value solely represents back costs, land and other direct acquisition costs paid in relation to the Group's Tyler & Polk County projects, and prepayments towards the drilling of future wells.

**NOTES TO THE FINANCIAL INFORMATION
FOR THE PERIOD ENDED 31 DECEMBER 2015**

1.7. Impairment of exploration and development costs and depreciation of plant & equipment

Impairment reviews on development and producing assets are carried out regularly. When events or changes in circumstances indicate that the carrying amount of expenditure attributable to a successful well may not be recoverable from future net revenues from oil and gas reserves attributable to that well, a comparison between the net book value of the cost attributable to that well and the discounted future cash flows from that well is undertaken. To the extent that the carrying amount exceeds the recoverable amount, the cost attributable to that well is written down to its recoverable amount and charged as an impairment.

Developed Oil and Gas Properties are amortised over the estimated life of the commercial reserves on a unit of production basis

Other property, plant & equipment assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the costs less estimated residual value of each asset over its estimated useful life as follows:

- Production Facilities and Equipment are depreciated by equal instalments over their expected useful lives, in most cases being seven years.
- Office equipment is depreciated by equal annual instalments over their expected useful lives, being four years.

2. Loss per share

| | 6 months ended 31 December 2015 (unaudited) | 6 months ended 31 December 2014 (unaudited) | Year ended 30 June 2015 (audited) |
|---|---|---|--|
| Loss per ordinary share from continuing operations: | | | |
| Basic | (0.22)p | (0.42)p | (0.67)p |

The calculation above for the basis loss per share has been calculated by dividing the relevant loss for the period by the weighted average number of ordinary shares in issue of 196,356,396 (December 2014: 146,403,068; June 2015: 171,311,303). The diluted loss per share is calculated by dividing the relevant loss for the period by the weighted average number of dilutive shares in issue of 206,356,936, however as the result is anti-dilutive the diluted loss per share has been kept the same as the basic loss per share.

**NOTES TO THE FINANCIAL INFORMATION
FOR THE PERIOD ENDED 31 DECEMBER 2015**

3. Exploration and evaluation assets

| | Exploration & evaluation assets £ |
|-----------------------------|--|
| Group | |
| <i>Cost:</i> | |
| At 30 June 2015 | 16,406,313 |
| Additions | 5,004,834 |
| Effects of foreign exchange | 1,069,083 |
| At 31 December 2015 | <u>22,480,230</u> |
| <i>Net book value:</i> | |
| At 31 December 2015 | <u>22,480,230</u> |
| At 30 June 2015 | <u>16,406,313</u> |

4. Approval by Directors

The interim report for the six months ended 31 December 2015 was approved by the Directors on 29 March 2016.

5. Availability of Interim Report

The interim report will be made available shortly on the Company's website (www.pantheonresources.com), with further copies available on request from the Company's registered office.

6. Subsequent events

On 9 March 2016 the Company announced that it had successfully completed an equity placing raising gross proceeds of circa US\$30m at an issue price of £1.15 per share, resulting in the issuance of 18,601,062 new shares. Following completion of the placing, the company has 214,957,458 shares in issue. The proceeds of the fundraising are to be applied towards drilling operations, possible land acquisitions and administration costs.