

28 October 2019

#### Stock Data

Ticker:	UJO LN
Share Price:	0.23p
Market Cap:	£27.8m
Upside from current price:	187%

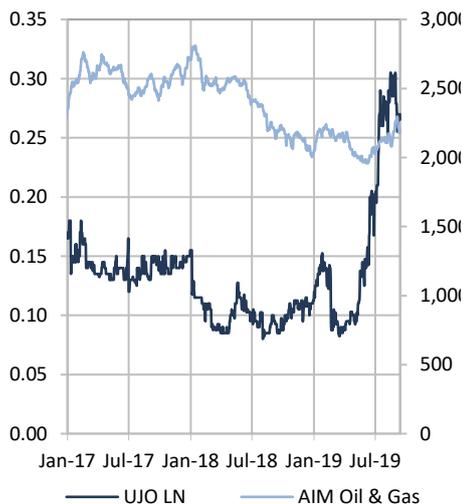
Source: Bloomberg (prior trading day's close)

## Poised for a Re-rating

We believe Union Jack Oil's ("Union Jack" or the "Company") current share price represents a compelling entry point into a growing producer, operating in a prolific hydrocarbon province. With three material 'company maker' acreage positions onshore UK, all with near term share price catalysts, we see the Company's current valuation as poised for a re-rating. We therefore upgrade our recommendation from BUY to STRONG BUY, setting a new 0.66p Target Price.

### Company Description

Union Jack Oil is an AIM-quoted oil and gas exploration and development Company with a number of onshore licence interests in the UK, all centred around the East Midlands and East Yorkshire.



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#### West Newton could yield 3x Union Jack's current market capitalisation

Whilst Union Jack holds an enviable acreage position across several UK onshore licences, we believe that West Newton is the 'jewel in the crown' in terms of near-term transformational value. Our Target Price is conservatively based on the latest third party assessed gas resource (£55.14m net to Union Jack), however given subsequent testing and ongoing, analysis and interpretation of the recently drilled A-2 coring sample, the reservoir is now deemed to be predominantly oil bearing. Assuming a more realistic 60/40 - oil/gas ratio, we infer a valuation closer to £75m net to Union Jack, some 3x the Company's current market capitalisation on this asset alone.

#### Wressle coming onstream would generate c.US\$3m/yr to Union Jack

Following a successful drilling campaign, Wressle consists of proven reserves and low-risk upside potential, from which first commercial oil is expected to flow at a constrained rate of 500bopd gross. In the event of a successful planning approval (slated for 5 November 2019), commercial production at Wressle could generate c.US\$3m per annum in the current oil price environment (c.US\$60/bbl).

#### Biscathorpe misunderstood?

The results of the recently drilled Biscathorpe-2 well have been misunderstood by the market in our view. Subsequent analysis indicates that the Basal Westphalian sandstone has potential to be more thickly developed to the north and north-east of the Biscathorpe-2 location away from what appears to be a more extensive than expected Palaeo-high. We are particularly encouraged by the elevated gas readings and shows from logging supported by calculated oil saturations in the Dinantian Carbonate over an interval in excess of 150m, which included a suite of gas indications C1 to C5 and nC5, which is indicative of an effective petroleum system.

#### Resume coverage with a STRONG BUY recommendation

In the current climate, we continue to advocate those companies that pursue low cost development/production strategies and Union Jack has certainly delivered on this criterion, with transformational near-term running room in the stock to come in our view. We therefore move our recommendation from BUY to STRONG BUY and increase our price target from 0.55p to 0.66p

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## Poised for a Re-rating

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## CURRENT VALUATION AND RECOMMENDATION

Our sum-of-the-parts valuation illustrates that UJO's shares trade at a 65% discount to Risked NAV

Our current valuation of Union Jack implies a risked sum-of-the-parts of 0.66p/shr (c.£79.3m mkt cap.), highlighting that the Company currently trades at a considerable (65%) discount to target NAV. Union Jack benefits from material exposure to three low risk 'company maker' acreage positions, underpinned by a broader portfolio of valuable exploration targets.

### SOTP Valuation Matrix

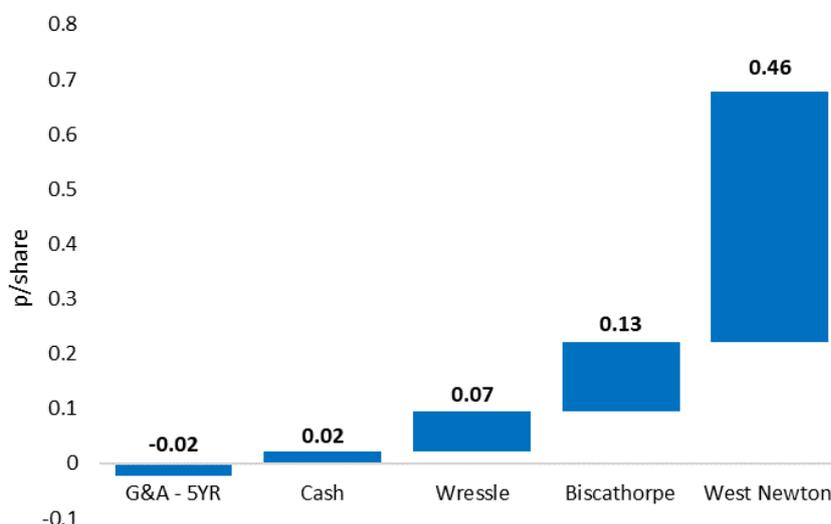
NAV	£m	p/shr
Wressle DCF	3.25	0.03
Biscathorpe - Appraisal	15.40	0.13
West Newton - Appraisal	55.14	0.46
Wressle - Appraisal	5.55	0.05
Cash	2.60	0.02
G&A - 5YR	(2.67)	(0.02)
<b>Total NAV</b>	<b>79.26</b>	<b>0.66</b>

Source: SP Angel estimates

The Company's portfolio is diversified across lower risk production and appraisal projects, underpinned by medium risk exploration assets, in a known basin. The short term should see the Company grow its resource size through updated volumetrics at West Newton, in addition to an ongoing Extended Well Test (EWT) of the recently drilled A-2 well. Longer term, the Company and its partners will look to place Wressle on production by the end of Q2 2020, yielding a significant boost to operating cash flows and the potential to explore its wider asset base onshore UK.

### SOTP Waterfall Chart

Our core valuation focuses on UJO's interests in West Newton, Biscathorpe, and Wressle



Source: SP Angel estimates

Our core valuation focuses on Union Jack's interests in West Newton, Biscathorpe, and Wressle where the Company holds material 2P reserves and 2C contingent resources. Whilst West Newton makes up the bulk of Union Jack's Risked NAV, the Company's forward plan includes the simultaneous maturation of all three positions.

## Valuation Methodology

In line with our coverage universe, we value UJO using a combination of DCF and RENAV valuation techniques

We value Union Jack using a combination of a Discounted Cash Flow (DCF) (Reserves) and Risked Net Asset (RENAV) (Contingent Resources) approach in line with our wider AIM listed coverage universe. At this stage we do not value the Company's prospective resource base given the early stage nature of these assets. We also include a valuation of the Company's financial assets and liabilities.

We have incorporated the following assumptions into our financial model:

Metric	Assumption
Shares in issue (m)	12,100
LT exchange \$/£	1.26
Bcf/Mmboe	5.80
LT Oil Price/bbl	US\$58/bbl - flex 2% per annum
NBP gas pricing	US\$6/Mcf
NPV/boe discount factor	10%
Inflation	2%
First commercial oil at Wressle	H1 2020

Source: SP Angel estimates

Our RENAV takes account of Union Jack's last reported reserve and resource estimates. For each licence under valuation, we have calculated full field development on a DCF basis to infer a 10 % NPV/bbl.

### Risked Net Asset Valuation (RENAV)

Field	Interest	Gross Resource (Mmboe)	Net Resource (Mmboe)	Geological CoS	NPV 10% \$/boe	Unrisked NPV US\$m	Risked NPV US\$m	Net Risked £m	Net Risked p/shr
<b>Reserves</b>									
Wressle	27.50%	0.65	0.18	100%	22.91	4.10	4.10	3.25	0.03
<b>Total Reserves</b>		<b>0.74</b>	<b>0.20</b>		<b>36.31</b>	<b>4.34</b>	<b>4.34</b>	<b>3.44</b>	<b>0.03</b>
<b>Appraisal &amp; Development</b>									
Biscathorpe - Appraisal	22.00%	14.00	3.08	75%	8.40	25.87	19.40	15.40	0.13
West Newton - Appraisal	16.67%	31.50	5.25	90%	14.70	77.19	69.47	55.14	0.46
Wressle - Appraisal	27.50%	1.86	0.51	90%	15.20	7.77	7.00	5.55	0.05
<b>Total Appraisal &amp; Development</b>		<b>47.36</b>	<b>8.84</b>		<b>38.30</b>	<b>110.84</b>	<b>95.87</b>	<b>76.09</b>	<b>0.63</b>
<b>Total RENAV</b>		<b>48.10</b>	<b>9.04</b>			<b>115.17</b>	<b>100.21</b>	<b>79.53</b>	<b>0.66</b>

Source: SP Angel estimates

The last third-party assessment of West Newton was 183Bcf (31.5MMboe)

At West Newton, our RENAV takes account of the figures reported in the 2017 CPR prepared by Deloitte, with the analysis indicating 189Bcf (31.5MMboe) of 2C gas Contingent Resources within the Kirkham Abbey Shoal formation and further considerable potential prospective resource upside for oil within the deeper Cadeby Reef.

However, it should be noted that this CPR was published prior to the successful drilling of the West Newton A-2 appraisal well, and therefore does not take account of the liquids encountered and subsequent coring analysis.

The West Newton A-2 data provided a good tie back to the overall 3D seismic volume

The West Newton A-2 data provided a good tie to the high quality three component 3D seismic volume that covers the entire West Newton project area. As such, following the integration and evaluation of the core, petrophysical, seismic and test data, the joint venture partners intend to commission a revised CPR to re-assess volumetrics and revise NPV10 values based on the information acquired from the West Newton A-2 well.

Whilst, at this stage, we conservatively base our valuation of West Newton on the third party assessed gas resources (£55.14m), we have provided a range of valuation permutations on page 8 which if we assume a 60/40 – oil/gas ratio, suggests a valuation of £74.8m, representing a significant potential upside to our valuation.

## Financial assets and liabilities

We also include an appraisal of Union Jack’s financial assets and liabilities. In addition to the Company’s current net cash position (c.£2.6m or 0.02p/share), we provide for an NPV10 of the Company’s non-field related post tax G&A expenditure.

### 5-year post-tax G&A

£'000	FY19	FY20	FY21	FY22	FY23
Post tax G&A	(679.4)	(693.0)	(706.8)	(721.0)	(735.4)
<b>NPV10</b>	<b>(2,670.4)</b>				
<b>p/shr</b>	<b>(0.02)</b>				

Source: SP Angel estimates

## We upgrade our recommendation to STRONG BUY and increase our TP to 0.66p/shr

We upgrade our TP and rating to 0.66p and STRONG BUY

In our view, Union Jack’s shares offer investors a low-cost entry point into a growing producer with a high impact appraisal and production testing programme. With considerable near-term running room in the share price to come, we move our recommendation from BUY to STRONG BUY and increase our price target from 0.55p to 0.66p.

## ASSET OVERVIEW

Whilst Union Jack has a number of attractive assets across the hydrocarbon stage of development, our report primarily focusses on what we believe to be the three 'company makers' in the Company's diversified portfolio:

- West Newton (PEDL183) – 16.665% working interest
- Biscathorpe (PEDL253) – 22% working interest
- Wressle (PEDL180 and PEDL182) – 27.5% working interest

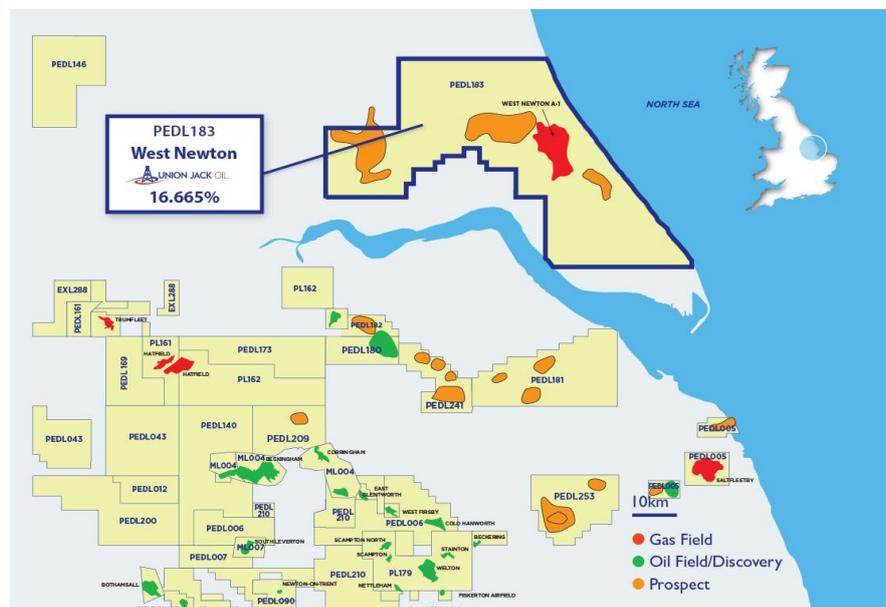
All three core assets have the potential to individually re-rate UJO's valuation

We believe that all three assets have the potential to re-rate the Company's valuation. Such to the extent to which Union Jack and its partners have de-risked the assets, that unsurprisingly, Union Jack continues to be the subject of ongoing M&A speculation. Nevertheless, we believe the Company is pursuing the most value accretive strategy of defining full value ahead of any corporate or asset sale.

### West Newton – PEDL183

PEDL183 is located near Hull on the North East coast of England and holds the much-publicised West Newton discovery. During October 2018, Union Jack completed a farm-in to licence PEDL183, containing the West Newton A-1 discovery with the licence Operator, Rathlin Energy, a subsidiary of Connaught Oil & Gas, for a 16.665% licence interest. Union Jack acquired the interest in the licence by paying 25% of the West Newton A-2 drilling appraisal costs.

### West Newton Acreage Positions



Source: Company Data

The West Newton A-1 discovery well was drilled in 2014

The West Newton A-1 discovery well was drilled and logged in 2014, reflecting its status as an existing discovery. Rathlin Energy's estimated unrisks project economic evaluation indicates NPV10% before tax of in excess of US\$300m and offers an excellent rate of return in our view of c.52.5%. Based on Union Jack's share of the drilling costs and the Operator's NPV10, infers that Union Jack acquired its interest in the field for c.US\$0.03/boe.

The Cadeby Reef has been designated a prospective resource base of 79.1MMboe

As reported in the aforementioned 2017 CPR, there is estimated to be in excess of 189Bcf (31.5MMboe) of 2C Contingent Resources within the Kirkham Abbey Shoal formation and further considerable potential prospective resource upside for oil within the deeper Cadeby Reef formation.

### Kirkham Abbey Shoal and Cadeby Reef resource estimates

The Kirkham Abbey Shoal Contingent Resources (gross)				
	Low	Best	High	Mean
(MMboe)	15.9	<b>31.5</b>	62.6	36.4
Cadeby Reef Prospective Resources (gross)				
	Low	Best	High	Mean
(Mmboe)	42.8	<b>79.1</b>	146	88.6

Source: Company data

The Cadeby Reef has Best Estimate Prospective Resources of 79.1MMboe gross, and an estimated geological chance of success of 26%. In addition, Rathlin’s estimated unrisks project evaluation indicates NPV10 before tax of US\$899m and yields a 111.3% rate of return.

The licence area is within the western sector of the Southern Zechstein Basin and the West Newton A-1 discovery is on-trend with the prolific offshore Eni-operated Hewett gas complex.

Regionally, West Newton and Hewett are located in the Southern Permian Basin which contains approximately 24Tcf of gas and 250MMbbls of oil combined in production areas in Poland, Germany and the Netherlands.

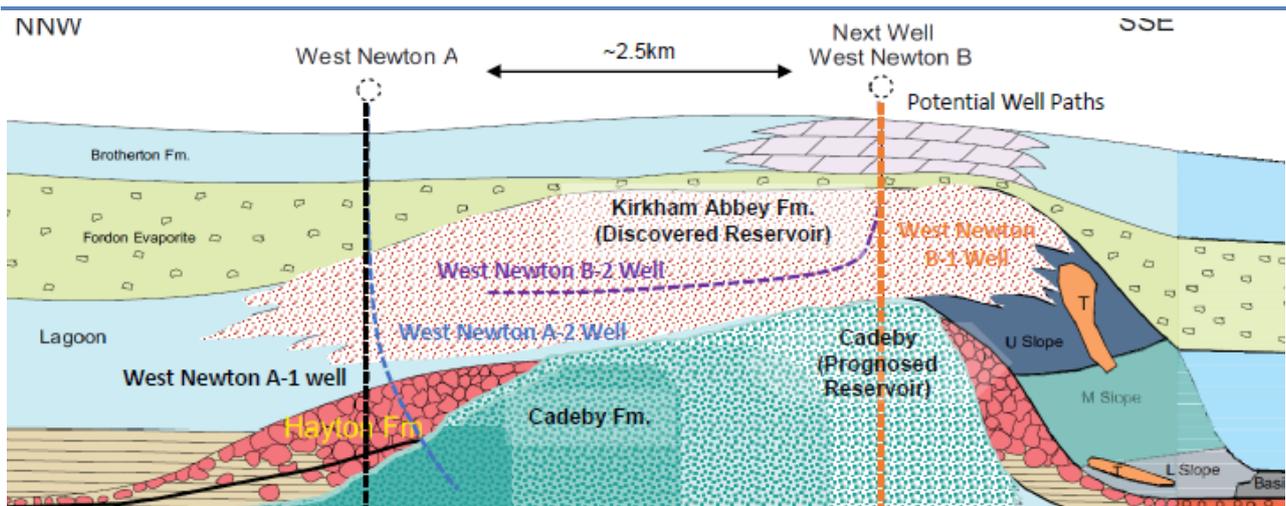
### A-2 appraisal well – predominantly oil bearing

A net 65m hydrocarbon saturated interval was encountered

In June 2019, Union Jack and its partners announced results from the West Newton A-2 appraisal well. A gross 65m hydrocarbon saturated interval was encountered from within the Kirkham Abbey formation indicating a substantial hydrocarbon accumulation, including a significant liquids component.

Recent RNS comments, and by extension the Operator, indicate a gross oil column of c.45m and a gross gas column of c.20m through analysis of the cores.

### A-1 and A-2 well schematic



Source: Reabold Resources

The ongoing EWT will establish flow rates, and other extensive data collection will help determine the future drilling and development programme at the West Newton project. Testing is expected to recommence in Q4 2019.

The petrophysical data correlates positively with the results from the West Newton A-1 discovery

The initial petrophysical data obtained from the West Newton A-2 well correlates positively with the results from the West Newton A-1 conventional discovery well. Whilst we currently value West Newton on the 183Bcf gas resource benchmark, subsequent analysis indicates that the reservoir is liquids rich, heavily suggesting that there is considerable upside to our valuation once the resource volumetrics are updated.

We expect volume expectations will be updated following further core and log analysis, then again following the extended well test.

### The valuation of West Newton could increase to £96.6m if initial analysis is confirmed

Given the coring analysis suggests that the oil column was found to be c.61% liquids, we feel it is prudent to provide a valuation of the range of possibilities with regards to a hydrocarbon range at West Newton.

#### West Newton volumetric estimates

Reservoir Gas Fraction	Gas (Bcf) 183	Oil (MMbbl) -	Inferred Value (Gas) £m	Inferred Value (Oil) £m	UJO Interest £m	Inferred Value p/shr	Upside to current share price %
-	-	61.0	0.0	711.4	118.56	0.98	426%
0.050	9	57.9	2.8	675.9	113.09	0.93	407%
0.100	18	54.9	5.5	640.3	107.62	0.89	387%
0.150	27	51.8	8.3	604.7	102.15	0.84	367%
0.200	37	48.8	11.0	569.1	96.68	0.80	348%
0.250	46	45.7	13.8	533.6	91.22	0.75	328%
0.300	55	42.7	16.5	498.0	85.75	0.71	308%
0.350	64	39.6	19.3	462.4	80.28	0.66	289%
0.400	73	36.6	22.1	426.9	74.81	0.62	269%
0.450	82	33.5	24.8	391.3	69.34	0.57	249%
0.500	92	30.5	27.6	355.7	63.87	0.53	230%
0.550	101	27.4	30.3	320.1	58.40	0.48	210%
0.600	110	24.4	33.1	284.6	52.94	0.44	190%
0.650	119	21.3	35.8	249.0	47.47	0.39	171%
0.700	128	18.3	38.6	213.4	42.00	0.35	151%
0.750	137	15.2	41.4	177.9	36.53	0.30	131%
0.800	147	12.2	44.1	142.3	31.06	0.26	112%
0.850	156	9.1	46.9	106.7	25.59	0.21	92%
0.900	165	6.1	49.6	71.1	20.13	0.17	72%
0.950	174	3.0	52.4	35.6	14.66	0.12	53%
1.000	183	-	55.1	0.0	9.19	0.08	33%

Source: SP Angel estimates

As per the above conservative valuation range, a 60/40 oil to gas ratio at West Newton would increase our current valuation of £55.1m to £74.8m (net to Union Jack) – c.3x the Company's market capitalisation.

## Near term catalysts on the horizon

The well encountered hydrocarbon shows within the deeper Cadeby formation, a secondary target.

The West Newton A-1 encountered hydrocarbon shows within the deeper Cadeby formation, a secondary but important target. The intersection is consistent with the West Newton A-1 well from which an oil saturated core was recovered. This is highly encouraging in our view, and the formation is planned to be intersected in the future from the West Newton B well locations, where optimal reservoir development is expected, and planning permission is already in place.

The preliminary success at the A-2 well suggests that Union Jack has the potential to transition from a junior E&P Company into a self-sustaining mid-tier hydrocarbon producer. As such, the short to medium term will focus on maturing this play further, with considerable activity planned on the licence over the coming eight months.

### SP Angel estimated forward plan at West Newton

Activity	Q4/2019	Q1/2020	Q2/2020
A-2 Testing	■		
Updated Volumes	■		
B-1 Well		■	
B-2 Well			■
B-1/2 Testing			■

Source: SP Angel estimates

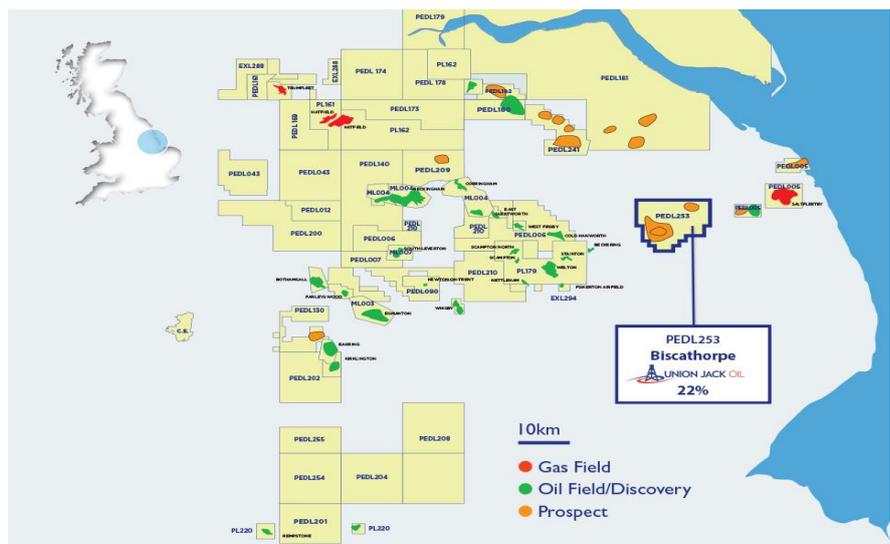
The Company is fully prepared for success in this venture and funds are in place for an extended well production testing programme and a possible 3D seismic programme over other structures which have been highlighted within the licence area.

## Biscathorpe - PEDL253

Union Jack holds a 22% interest in PEDL253

Union Jack holds a 22% interest in PEDL253, located within the proven hydrocarbon fairway of the Humber Basin, on trend with the Saltfleetby gas field and the Keddington oil field (Union Jack 20%) which produces from the Upper Carboniferous Westphalian aged reservoir sandstones.

### Biscathorpe Acreage Position



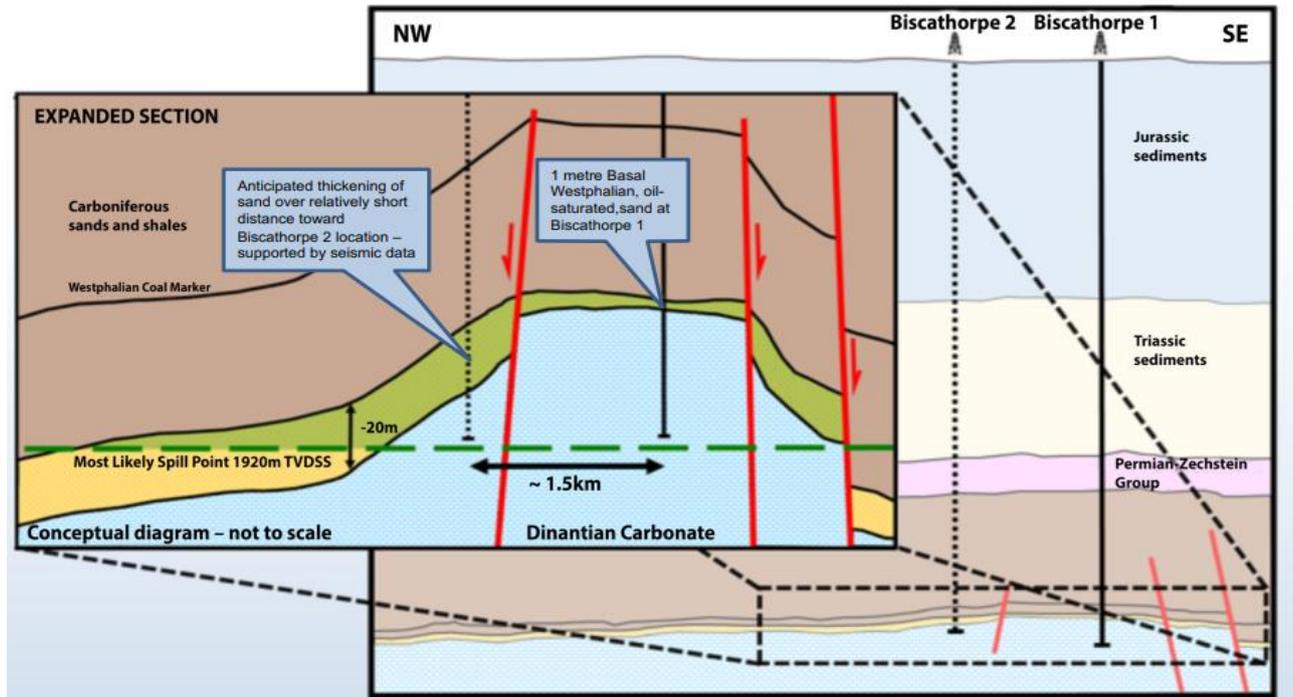
Source: Company data

In 1987 BP drilled the Biscathorpe-1 conventional exploration well

In 1987 BP drilled the Biscathorpe-1 conventional exploration well and encountered a thin, oil-saturated section of the sandstone reservoir. The targeted Basal Westphalian sandstone reservoir was expected to thicken at the Biscathorpe-2 well location North of the crest of the structural high.

In February 2019, the Biscathorpe-2 well was drilled and logging operations were conducted. Preliminary analysis indicated that the primary objective, the Basal Westphalian Sandstone, was not encountered as the well was drilled high to prognosis and did not thicken as expected in the pre-drill model.

### Sub-surface pre-drill expectation at Biscathorpe



Source: Egdon Resources

The Biscathorpe play was not tested by the Biscathorpe-2 well in our view, with subsequent analysis indicating that the Basal Westphalian sandstone has potential to be more thickly developed to the north and north-east of the Biscathorpe-2 location away from what appears to be a more extensive than expected Palaeo-high.

The well recorded elevated gas readings and oil shows supported by calculated oil saturations in the Dinantian Carbonate over a 99m interval indicating proximity to an effective petroleum system.

We are particularly encouraged by the elevated gas readings and shows from logging supported by calculated oil saturations in the Dinantian Carbonate over an interval in excess of 150m, which included a suite of gas indications C1 to C5 and nC5, which is indicative of an effective petroleum system in close proximity to the Biscathorpe-2 well.

As a result of these positive indications, a joint venture partner commissioned independent consultants APT to perform a detailed geochemical analysis of drill cutting samples taken from 20 intervals in the Biscathorpe-2 well. The objective of the APT analysis was to provide geochemical evidence for the presence of live hydrocarbons, together with an estimate of the likely oil quality.

The well recorded elevated gas readings and oil shows supported by calculated oil saturations in the Dinantian Carbonate

The APT report confirmed the presence of hydrocarbons in the Westphalian and Dinantian cutting samples analysed, validated by the presence of a full suite of gases ranging from methane to pentane. The key takeaway from the report in our view, was the likely presence of a 35m live oil column with API Gravity of 33° to 34° in the top of the Dinantian interval. Additionally, data evaluated at the base of the analysed section were suggestive of possible extra hydrocarbon pay at the base of the Dinantian interval.

The information derived from the revised petrophysical analysis has upgraded the Biscathorpe-2 well result, indicating proximity to an effective petroleum system, and validates Union Jack's and its joint venture partners' belief in the additional potential that exists within the PEDL253 licence area.

Petrophysical analysis of Biscathorpe-2 indicates proximity to an effective petroleum system

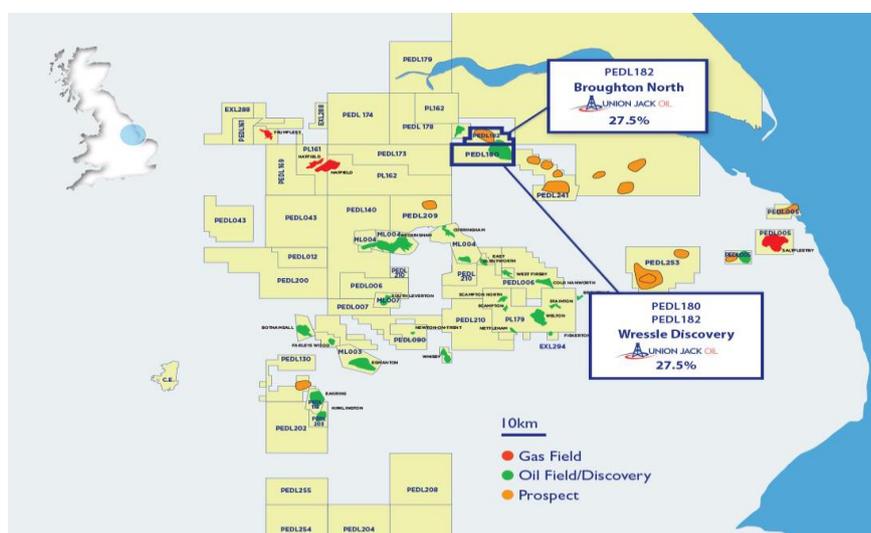
Following the drilling of the Biscathorpe-2 well and subsequent technical analysis, Union Jack management's view is that this prospect remains one of the UK's largest onshore un-appraised conventional hydrocarbon targets, given the attractions of the Basal Westphalian sandstone, its primary target reservoir, and the hydrocarbons identified within the Dinantian interval. The joint venture is continuing with detailed seismic re-processing and further technical studies to confirm the next steps in relation to a possible side track of the Biscathorpe-2 well

The open-hole section of the well has now been sealed and the well suspended to retain the option for a potential future side-track following the receipt of a new sub-surface model once the new well data is integrated following the re-processing and re-mapping of the existing 3D seismic data.

## Wressle - PEDL180 and PEDL182

Located in Lincolnshire on the Western margin of the Humber Basin, PEDL180 and PEDL182 contain the Wressle oil discovery, where Union Jack holds a 27.5% working interest.

### Wressle Acreage Position



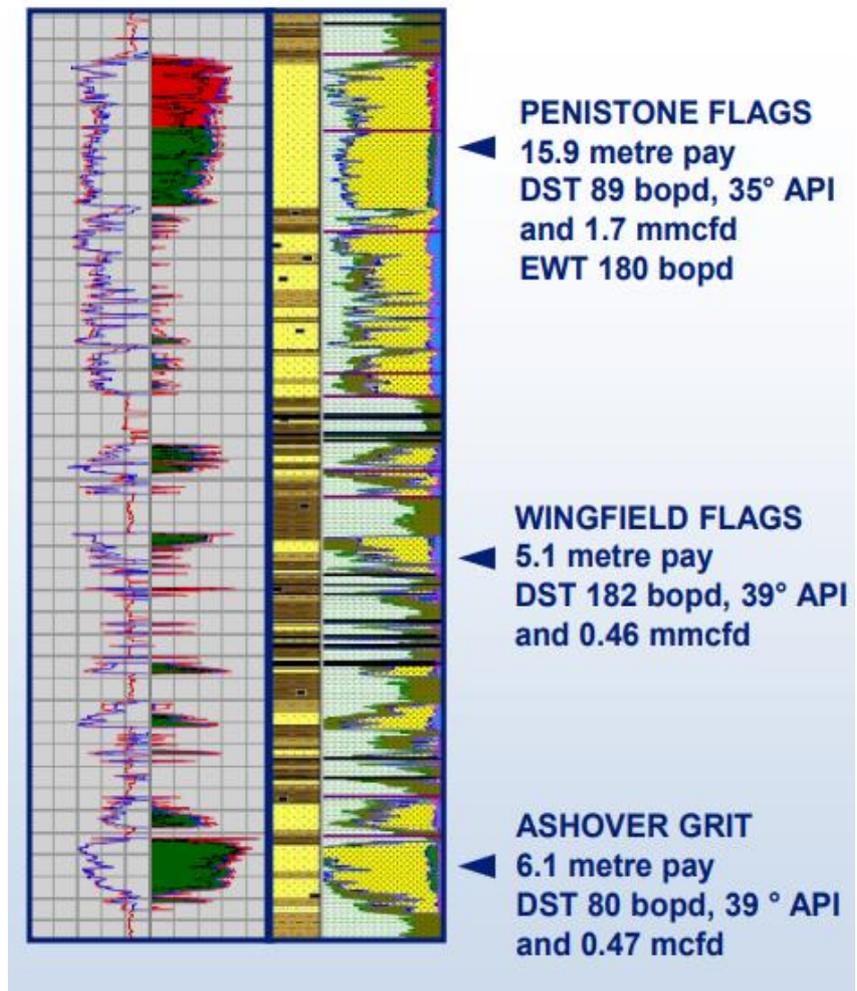
Source: Company data

In June 2018, Union Jack acquired a further 12.5% interest in PEDL180 and PEDL182

In June 2018, Union Jack acquired a further 12.5% interest in PEDL180 and PEDL182 from Celtique Energie Petroleum, increasing its holding in the project to 27.5%. The acquisition platform involved no initial cash consideration and the deferred cost of £1.04m is conditional on establishing first commercial production at Wressle. This acquisition had an immediate positive impact on Union Jack by increasing its 2P reserves and 2C resource base by 83% to in excess of 855,000boe.

The Wressle-1 well discovered hydrocarbons in 2014. During testing, a total of 710boepd were recovered from three separate reservoirs, the Ashover Grit, the Wingfield Flags and the Penistone flags.

### Productive Reservoirs at Wressle



Source: Company data

In September 2016, a CPR provided independent estimates of reserves and contingent and prospective oil and gas resources for the Wressle discovery of 2.15MMboe classified as discovered (2P+2C).

Following the successful drilling campaign, the acreage consists of proven reserves and significant upside potential, from which first commercial oil is expected to flow at a constrained rate of 500bopd gross. In the event of successful planning approval, and commercial production is established at Wressle, we estimate net cash flows to Union Jack of c.US\$3m per annum in the current oil price environment (c.US\$60/bbl).

Wressle has a total resource assessment of 2.15MMboe classified as discovered (2P+2C).

## Projected revenues at Wressle and NPV10 of net reserve base

	FY20E	FY21E	FY22E	FY23E	FY24E
	\$m	\$m	\$m	\$m	\$m
Gross Production (bopd)	500	500	490	480	471
Gross revenue	5.220	10.649	10.645	10.640	10.636
Costs	(3.150)	(6.300)	(6.174)	(6.051)	(5.930)
Gross Profit	2.070	4.349	4.471	4.590	4.707
Net Revenue to UJO	1.436	2.928	2.927	2.926	2.925
<b>Net profit to UJO</b>	<b>0.569</b>	<b>1.196</b>	<b>1.229</b>	<b>1.262</b>	<b>1.294</b>
NPV10 US\$m	4.095				
<b>NPV10 £m</b>	<b>3.225</b>				

Source: Company reports

Wressle is economical down to US\$35/bbl oil

The above numbers only consider the 0.65MMbo (gross) assigned to Wressle's reserve base and incorporated into our valuation. Additional upside is also present in the current conservative 2C resource base of 1.86MMbo (gross) assigned by the Operator (Egdon Resources - EDR LN).

After taking operating costs into consideration, estimated to be below US\$15/bbl, such revenues would propel Union Jack into a material cash generating oil production Company. In further support of the acquisition, the economics are robust and net asset value accretive down to an oil price of US\$35/bbl.

### Planning approval – the final hurdle?

During 2018, two new applications were made to North Lincolnshire Council ("NLC") to extend the planning term for PEDL180 and PEDL182 and to obtain permission for development of the Wressle-1 discovery.

The application to extend the planning term was denied by the NLC's Planning Committee despite being recommended for approval by NLC's Planning Officer. A subsequent appeal was submitted to the Planning Inspectorate and the Company announced in January 2019 that the appeal had been successful and an extension to the planning term had been granted for a further year by the Planning Inspector.

Not unsurprisingly, the second and revised application for development of the Wressle-1 discovery was again denied by NLC's Planning Committee, despite recommendation to allow development by its own Planning Officer and his positive conclusions within his report being confirmed by external independent technical consultants and experts (JBA Consulting) engaged by NLC to carry out a robust review of the revised application. In addition, it is important to note that the NLC has now withdrawn any evidence for the upcoming Planning Inquiry on 5 November 2019.

A positive outcome here, which we fully expect it to be, would lead to a material re-rating in Union Jack's shares in our view.

The Planning Inquiry will be heard on  
5 November 2019

### David Bramhill, Executive Chairman

Mr Bramhill has over 40 years' experience in the natural resources industry. Mr Bramhill has directed and managed several energy companies and was the former managing director of OilQuest Resources plc, acquired by EnCore Oil plc, and subsequently Premier Oil.

Mr Bramhill had previously consulted in an engineering capacity for over 20 years on projects for Shell, ExxonMobil, Petrofina, BP and numerous other international energy companies.

### Joseph O'Farrell, Executive Director

Mr O'Farrell has over 30 years' corporate experience in the hydrocarbon and mining industry. He has managed several energy companies and is a former director of OilQuest Resources plc. He has assisted a number of companies working in conjunction with corporate advisers in pre- IPO fundraising and project acquisition.

### Graham Bull, Non-Executive Director

Mr Bull is a geologist with 48 years of international oil and gas industry exploration experience. Following graduation from the University of Leicester in 1968 with a BSc Hons Geology he worked in Canada and held positions with Chevron, Dome Petroleum, Siebens Oil and Gas and Poco Petroleum and also provided exploration expertise to a Canadian drilling fund. He returned to the UK in 1982 taking the position as Chief Geologist to Sovereign Oil and Gas plc. In addition, Mr Bull has operated as a geological adviser for EnCore Oil plc (formerly OilQuest Resources plc), Premier Oil plc, Cirque Energy and DSM Energy. He is currently an exploration geological consultant working on Northwest Europe offshore and onshore United Kingdom and other international areas. Mr Bull is a member of the Petroleum Exploration Society of Great Britain, the American Association of Petroleum Geologists and a Fellow of the Geological Society of London.

### Raymond Godson, Non-Executive Director

Mr Godson is a Chartered Accountant with 40 years' experience in the provision of oil and gas related services to energy companies. Mr Godson joined the Rio Tinto group in 1973 where he spent 16 years rising to become the financial and commercial director of the oil and gas subsidiary RTZ Oil & Gas. In 1988 he joined Teredo Petroleum ("Teredo") where he became the managing director in 1992. Following the takeover of Teredo in 1993, he became a full-time accountant in general practice, where the majority of his business has been oil and gas related.

Mr Godson acted as Company Secretary for Fusion Oil & Gas plc from IPO to its takeover by Sterling Energy. He was subsequently Company secretary for both Ophir Energy and Aurelian Oil & Gas. He is currently an executive director of Montrose Industries Limited, Excalibur Exploration Limited and Trajan Oil & Gas.

### Exploration and production risks

There is no assurance that Union Jack's exploration and appraisal activities will be successful or, if they are successful, that commercial quantities of oil and/or gas can be recovered from the Company's licensed areas. No assurance can be given that, if commercial reserves are discovered, the Company will be able to realise such reserves as intended. Negative results from initial exploration programmes may result in downgrading their prospectivity. An area may therefore be considered not to merit further investment and licences could be surrendered (subject to the approval of the licensing authority) prior to the drilling of any exploratory wells.

### Regulatory changes

The Company's strategy has been formulated in the light of the current regulatory environment and likely future changes. The regulatory environment may change in the future and such changes may have a material adverse effect on Union Jack.

### Licences and contractual risks

Union Jack's activities are dependent upon the grant and maintenance of appropriate licence concessions, leases, permits and regulatory consents which may not be granted or may be withdrawn or made subject to limitations. Unforeseen circumstances or circumstances beyond the control of the Company may lead to commitments given to licensing authorities not being discharged on time. Although the Company believes that the authorisations will be renewed following expiry or grant (as the case may be), there can be no assurance that such authorisations will be renewed or granted or as to the terms of such grants or renewals.

### Operational and environmental risks

Drilling, appraisal, exploration, construction, development and production activities may involve significant risks and operational hazards and environmental, technical and logistical difficulties. These include, inter alia, the possibility of uncontrolled hydrocarbon emissions, fires, earthquake activity, extreme weather conditions, coastal erosion, explosions, blowouts, cratering, over-pressurised formations, unusual or unexpected geological conditions, unpredictable drilling-related problems, equipment failure, labour disputes and the absence of economically viable reserves. These hazards may result in delays or interruption to production, cost overruns, substantial losses and/or exposure to substantial environmental and other liabilities. Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner, which could limit or curtail production or development.

### Non-achievement of anticipated timetables

Drilling rigs or other equipment may not be available at the time envisaged (due to, for example, delays in making appropriate modifications, adverse weather conditions, insolvency of the owners or total loss) or may fail to perform in accordance with the Board's expectations in regard to the timetable. There is no guarantee that replacement equipment will be available on reasonable

commercial terms or at all. Failure to meet the expected timetables may result in the Company being unable to generate cash from those assets. This would have a material adverse effect on the Company's business, prospects, financial condition and operations. The Company's anticipated timetables for all of its current and expected operations are Board estimates based on a number of variables not all of which are under the Company's direct control. The Company is dependent upon the operators of its assets to act in accordance with agreed plans in respect of each of the assets but the Company has no control over such persons save under contractual terms which may be costly and time consuming to enforce. If the timetable estimates prove to be wrong or the operators or any of them do not take the actions in relation to maintaining or developing the assets then it may lead to delays or further problems which may have a material adverse effect on the Company's business, prospects, financial condition and operations.

## Early-stage licence development with no proven reserves

Certain of the operations in which Union Jack has an interest are at an early stage of development and future success will depend on the Company's ability to successfully manage the current projects and to take advantage of further opportunities which may arise. There can be no guarantee that the Company can or will be able to, or that it will be commercially advantageous for the Company to, develop any acreage subject to any tenement, permits or licences in which the Company has or may acquire an interest.

## Reserve and resource estimates

Any future reserve and/or resource figures for projects in which the Company may invest, or may acquire, will be estimates and there can be no assurance that the oil, gas and hydrocarbons are present, will be recovered or that they can be brought into profitable production. Reserves and resources estimates may require revisions based on actual production experience. Furthermore, a decline in the market price for oil and gas that may be discovered could render oil and gas reserves containing relatively low volumes of hydrocarbons uneconomic to recover and may ultimately result in a restatement of reserves.

## Environmental regulation

Environmental and safety legislation in jurisdictions in the UK may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees, and more stringent enforcement of existing laws and regulations. There may also be unforeseen environmental liabilities resulting from oil and gas activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential clean-up costs and obligations and liability for toxic or hazardous substances for which the Company may become liable as a result of its activities, may be impossible to assess against the current legal framework and current enforcement practices of the various jurisdictions in which the Company operates, or in which it may operate in the future.

## Market risk

In the event of successful exploration and development of oil and gas reserves, the marketing of the Company's prospective production of oil and gas from such reserves will be dependent on market fluctuations and the availability of processing and refining facilities and transportation infrastructure, including access to ports, shipping facilities, pipelines and pipeline capacity at economic tariff rates, over which the Company may have limited or no control. Pipelines may be inadequately maintained and subject to capacity constraints and

economic tariff rates may be increased with little or no notice and without taking into account producer concerns.

### Increase in drilling and production costs, and availability of drilling equipment

The oil and gas industry historically has experienced periods of rapid cost increases. Increases in the cost of exploration, production and development would affect the Company's ability to invest in prospects and to purchase or hire equipment, supplies and services. In addition, the availability of drilling rigs and other equipment and services is affected by the level and location of drilling activity around the world.

### Volatility of prices for oil and gas

The demand for, and price of, oil and gas are highly dependent on a variety of factors, including international supply and demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future.

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