

11 November 2019

#### Stock Data

Ticker	UJO LN
Share Price:	0.25p
Market Cap:	£31.4m
Upside from current price:	236%

Source: Bloomberg (prior trading day's close)

### Company Description

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



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### Significant upgrade at West Newton

Union Jack Oil (“Union Jack” or the “Company”) has today released updated volumetrics compiled by the Operator Rathlin Energy (UK) Limited at its flagship, conventional West Newton project, indicating a significant upgrade to the 2017 figures contained within the current Competent Persons Report. The headline numbers estimate an in-place Base Case of 146.4MMbbls of oil and 211.5Bcf of gas; and an in-place Upside Case of 283MMbbls of oil and 265.9Bcf of gas. The estimated resource volumes therefore firmly categorise West Newton as having significant ‘company maker’ potential in our view, inferring that the field is one of the UK’s largest ever onshore discoveries. We have taken the opportunity to update our financial model and upgrade our TP from 0.66p to 0.84p, maintaining our STRONG BUY recommendation.

#### West Newton could become of the largest UK onshore conventional discoveries

The upgraded volumetrics primarily resulted from subsequent evaluation of the drilling results from the recent West Newton A-2 appraisal well, and revised petrophysical, fluid saturation, sedimentological, and diagenetic analysis. The significant revision from the 2017 CPR (which estimated 183Bcf of gas) is the inclusion of a large liquids component, notably 146.4MMbo (Base Case) and 283MMbo (Upside Case). We have prudently used a 24% recoverability factor in our updated valuation through the analysis of similar analogous fields, however we note that this could be materially higher once the reservoir properties are further confirmed through the upcoming drilling of the B-1 and B-2 appraisal wells in 2020.

#### What next can we expect at West Newton?

Following today’s significant upgrade of the estimated volumes at West Newton, the Company and its partners will now turn their attention to the ongoing Extended Well Test (EWT) of the A-2 appraisal well. In addition, the Joint Venture is considering a 3D seismic programme over other structures which have been highlighted within the licence area. 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, ahead of further appraisal drilling next year.

#### All eyes on the upcoming planning approval at Wressle

Elsewhere at Wressle (UJO 27.5% WI) the Public Inquiry concluded on 7 November 2019, lasting three days instead of the planned six days. As previously announced, North Lincolnshire Council presented no evidence. We would expect final a decision to be made after 12 December UK general election, but before the end of 2019. If successful, first commercial oil is expected to flow at a constrained rate of 500bopd gross, and therefore could generate c.US\$3m per annum net to Union Jack in the current oil price environment (c.US\$60/bbl).

## UPDATED VALUATION AND RECOMMENDATION

Our sum-of-the-parts valuation infer a 236% upside case to the Company's current share price

Our updated valuation of Union Jack implies a risked sum-of-the-parts of 0.84p/share (c.£102m mkt cap.), a 27% increase on our 28 October 2019 valuation of 0.66p/share. The upgrade is solely attributable to the material increase in the estimated Contingent Resource base at West Newton reported today. Nevertheless, Union Jack also has exposure to two other low risk 'company maker' acreage positions (Wressle and Biscathorpe), underpinned by a broader portfolio of valuable exploration and development targets, and production upside.

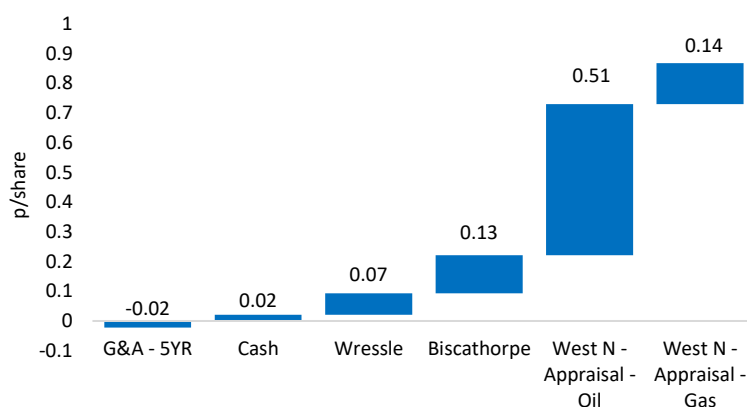
### SOTP Valuation Matrix

NAV	£m	p/shr
Wressle DCF	3.25	0.03
Biscathorpe - Appraisal	15.40	0.13
W. Newton – Appraisal - Oil	61.58	0.51
W. Newton – Appraisal - Gas	16.62	0.14
Wressle - Appraisal	5.55	0.05
Cash	2.50	0.02
G&A - 5YR	(2.67)	(0.02)
<b>Total NAV</b>	<b>102.23</b>	<b>0.84</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 known basins. Following today's significant resource upgrade at West Newton, Union Jack and its partners will turn their attention to the ongoing Extended Well Test of the recently drilled A-2 appraisal well. Longer term, the Company and its partners will look to place Wressle on production by the end of Q2 2020, yielding a material 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 RENAVAL valuation techniques

We value Union Jack using a combination of a Discounted Cash Flow (DCF) (Reserves) and Risked Net Asset Valuation (RNAVAL) (Contingent Resources). 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 use the following assumptions in 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%
Recovery rate at West Newton	24%
First commercial oil at Wressle	Q2 2020

Source: SP Angel estimates

We take a prudent approach to recovery rates at West Newton, using 24% in our model

The sole addition to our assumptions table is the inclusion of a 24% recovery rate at West Newton. This has been derived from analysing recovery rates at analogous fields with similar reservoir characteristics. The identification of two major depositional cycles within the West Newton Kirkham Abbey reservoir 2, indicate strong similarities to the Ca2 carbonate platform/slope analogues from Northwest Germany; and two major depositional cycles and the Main Dolomite of the LMG field complex in Poland (gas and oil distribution). The recovery rates here range from 19% to 28%, we have therefore taken the prudent stance of inferring the median view of the two rates to infer a 24% recovery rate for West Newton. In our updated RENAVAL, we have valued the Base Case of the updated resource report (146.4MMbbls of oil and 211.5Bcf of gas) and converted both components to derive a gross in place volume ahead of applying our recovery rate.

## Risked Net Asset Valuation (RNAVAL)

Field	Interest	Gross Recoverable Oil (MMbo)	Net Recoverable Oil (MMbo)	Net Recoverable Gas (Bcf)	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>0.65</b>	<b>0.18</b>				<b>4.10</b>	<b>4.10</b>	<b>3.25</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 N. – Appraisal - Oil	16.665%	35.18	5.87		90%	14.70	86.22	77.60	61.58	0.51
West N. – Appraisal - Gas	16.665%			50.76	90%	2.75	23.26	20.94	16.62	0.14
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>51.04</b>	<b>9.46</b>	<b>50.76</b>			<b>143.13</b>	<b>124.93</b>	<b>99.15</b>	<b>0.82</b>
<b>Total RENAVAL</b>		<b>51.69</b>	<b>9.64</b>	<b>50.76</b>			<b>147.22</b>	<b>129.03</b>	<b>102.4</b>	<b>0.85</b>

The updated resource report also provides an upside case for the in-place oil and gas volumes at West Newton. The report estimates a Upside Case 283MMbbls of OIIP and 266Bcf of GIIP.

## Base and Upside Case (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
West Newton – Base Case	16.665%	43.94	7.32	90%	14.70	107.66	96.90	76.90	0.64
West Newton – Upside Case	16.665%	78.92	13.16	90%	14.70	193.40	174.06	138.14	1.14

### Upside to Base Case

78.1%

Source: SP Angel estimates

Typically, we would expect the actual resource volumes to arrive somewhere in between the Base Case and Upside Case and therefore the above table provides an indication of the upside potential investors could expect at West Newton in our view.

## 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.£2.5m 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 TP from 0.66p to 0.84p and maintain our STRONG BUY recommendation

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In our view, Union Jack's shares offer investors a low-cost entry point into a growing producer with a Upside impact appraisal and production testing programme. Clearly today's updated resource report has had a material positive effect on our valuation, and we see considerable near-term running room in the share price to come, we therefore increase our TP to 0.84p and maintain our STRONG BUY recommendation.

## KEY RISKS

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Please see our 28 October 2019 report *“Poised for a re-rating”* for an overview of the key risks identified for Union Jack Oil.

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