

8 June 2020

Stock Data

| | |
|----------------------------|--------|
| Ticker | UJO LN |
| Share Price: | 0.20p |
| Market Cap: | £30.9m |
| Upside from current price: | 310% |

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.



Research

Sam Wahab

+44 20 3470 0473

Sam.wahab@spangel.co.uk

Sales

Richard Parlons

+44 20 3470 0472

Abigail Wayne

+44 20 3470 0534

Rob Rees

+44 20 3470 0535

UJO takes further interest in Wressle

The current macro backdrop has given rise for cashed up E&P companies to opportunistically purchase compelling assets at material discounts to NPV. Union Jack has taken advantage of its existing position in the near-term cash generative Wressle oil field to increase its stake from 27.5% to 40%, thereby becoming the largest interest holder in this key asset onshore UK. On the basis of the accretive value of this latest transaction, we upgrade our Target Price for the Company from 0.70p to 0.82p, maintaining our STRONG BUY recommendation.

Increase in Wressle reserves and resources by c.46%

Union Jack has confirmed that it has agreed to acquire a further 12.5% economic interest in PEDL180 and PEDL182 containing the Wressle hydrocarbon development project from Humber Oil & Gas for an initial cash consideration of £500k. The Company will pay a further £1.04m on first oil to Calmar LP in line with prior transaction obligations. The acquisition has an immediate positive impact on the Company in our view, increasing its reserves and resources at Wressle by 45.5% to in-excess of 1.2MMboe. At our current Brent forward curve of US\$50.23/bbl from January 2021, the transaction infers an IRR of 46% at a constrained production rate of 500bopd gross.

Compelling project economics

First oil at Wressle is anticipated to commence during the second half of this year, coming on-stream at 200bopd net to Union Jack. In-depth modelling infers a break-even oil price of c.US\$17.62/bbl, further highlighting the compelling project economics on offer at Wressle even in the current oil price environment. We also note further upside value drivers including the possible production of gas and electricity sales over and above that used on site, in addition to the c.50% increase in the Contingent Resource volumes within the Penistone Flags reservoir.

Union Jack remains in an enviable cash position

Union Jack remains in a strong financial position with a pre-acquisition cash balance of c.£5.5m and is fully funded for its existing drilling, testing and development commitments at Wressle and West Newton. Whilst the deferred consideration is within the Company current financial capabilities, Union Jack has initiated discussions with third-party financing providers to evaluate a range of debt financing funding instruments available. The nature of estimated reserves and cash flow at Wressle provides the Company with an array of options in our view, including off-take financing from production. However, we note from today's announcement that any financing in respect of the deferred consideration will not be equity based.

UPDATED VALUATION AND RECOMMENDATION

Our sum-of-the-parts valuation infer a 310% upside case to the Company's current share price

Our updated valuation of Union Jack implies a risked sum-of-the-parts of 0.82p/share (c.£126m mkt cap.), a 17% increase on our last reported valuation of 0.70p/share. The upgrade takes account of the increase in the Company's interest in Wressle, in addition to a downward revision on our oil price outlook. We also highlight that Union Jack has exposure to two other low risk 'company maker' acreage positions (West Newton and Biscathorpe), underpinned by a broader portfolio of valuable production (Keddington 55% and Fiskerton Airfield 20%), exploration and development targets and further production upside, especially in respect of Keddington.

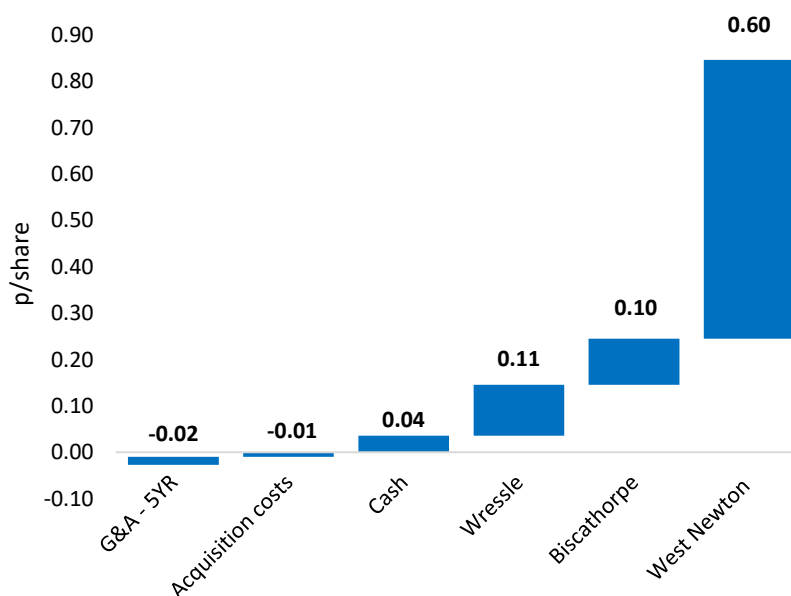
SOTP Valuation Matrix

| NAV | £m | p/shr |
|-----------------------------------|---------------|-------------|
| Wressle DCF | 4.73 | 0.03 |
| Biscathorpe - Appraisal | 15.40 | 0.10 |
| West Newton – Appraisal (Oil) | 76.25 | 0.49 |
| West Newton – Appraisal (Gas) | 16.62 | 0.11 |
| Wressle - Appraisal | 12.18 | 0.08 |
| Cash (pre-acquisition) | 5.50 | 0.04 |
| Wressle acquisition consideration | (0.50) | (0.00) |
| Deferred consideration | (1.04) | (0.01) |
| G&A - 5YR | (2.67) | (0.02) |
| Total NAV | 126.46 | 0.82 |

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.

SOTP Waterfall Chart



Source: SP Angel estimates

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

Our core valuation focuses on Union Jack’s interests in West Newton, Biscathorpe, and Wressle, where it 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 maturation of all three key project positions within the short to medium term.

Valuation Methodology

We value Union Jack using a combination of a Discounted Cash Flow (DCF) (Reserves) and Risked Net Asset Valuation (RNAV) (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:

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

| Metric | Assumption |
|---------------------------------|-----------------------------------|
| Shares in issue (m) | 15,441 |
| LT exchange \$/£ | 1.29 |
| Bcf/Mmboe | 5.80 |
| LT Oil Price/bbl | US\$45.83/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 | 2H 2020 |

Source: SP Angel estimates

Given the significant value ascribed at West Newton, we highlight that we have applied a conservative 24% recovery rate on the OIIP at this project. 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, 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 of 183MMboe ahead of applying our recovery rate.

Risked Net Asset Valuation (RENAV)

| Field | Interest | Net Resource Oil (Mmbo) | Net Resource Gas (Bcf) | Geological CoS | NPV 10% \$/boe | Unrisked NPV US\$m | Risked NPV US\$m | Net Risked £m | Net Risked p/shr |
|--|----------|-------------------------|------------------------|----------------|----------------|--------------------|------------------|---------------|------------------|
| Reserves | | | | | | | | | |
| Wressle | 40.00% | 0.26 | | 100% | 22.91 | 5.96 | 5.96 | 4.73 | 0.03 |
| Total Reserves | | 0.26 | | | | 5.96 | 5.96 | 4.73 | 0.03 |
| Appraisal & Development | | | | | | | | | |
| Biscathorpe - Appraisal | 22.00% | 3.08 | | 75% | 8.40 | 25.87 | 19.40 | 15.40 | 0.10 |
| West Newton – Appraisal (Oil) | 16.665% | 5.87 | | 90% | 18.20 | 106.75 | 96.07 | 76.25 | 0.49 |
| West Newton – Appraisal (Gas) | 16.665% | | 50.76 | 90% | 5.72 | 23.26 | 20.94 | 16.02 | 0.11 |
| Wressle - Appraisal | 40.00% | 0.51 | | 90% | 22.91 | 17.05 | 15.34 | 12.18 | 0.08 |
| Total Appraisal & Development | | 51.04 | 50.76 | | | 172.93 | 151.75 | 120.44 | 0.78 |
| Total RENAV | | 51.69 | 50.76 | | | 178.88 | 157.71 | 125.17 | 0.81 |

Source: SP Angel estimates

We upgrade our Target Price from 0.70p to 0.82p and maintain our STRONG BUY recommendation

We upgrade our TP to 0.82p and maintain our STRONG BUY recommendation

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. Clearly today's announced increase in the Company's working interest at Wressle has had a material positive effect on our valuation, however we see considerable near-term running room in the share price to come given its planned activity at West Newton. We therefore increase our target price to 0.82p and maintain our STRONG BUY recommendation.

DISCLAIMER: NON-INDEPENDENT RESEARCH

This note is a marketing communication and comprises non-independent research. This means it has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination.

MiFID: Based on our analysis, we have concluded that this note may be received free of charge by any person subject to the new MiFID rules on research unbundling pursuant to the exemptions within Article 12(3) of the MiFID Delegated Directive and FCA COBS Rule 2.3A.19. Further and fuller analysis may be viewed here <http://www.spangel.co.uk/legal-and-regulatory-notice.html>.

This note has been issued by SP Angel Corporate Finance LLP ('SPA') in order to promote its investment services. Neither the information nor the opinions expressed herein constitutes, or is to be construed as, an offer or invitation or other solicitation or recommendation to buy or sell investments. The information contained herein is based on sources which we believe to be reliable, but we do not represent that it is wholly accurate or complete. SPA is not responsible for any errors or omissions or for the results obtained from the use of such information. Where the subject of the research is a client Company of SPA we will usually have shown a draft of the research (or parts of it) to the Company prior to publication in order to check factual accuracy, soundness of assumptions etc.

No reliance may be placed for any purpose whatsoever on the information, representations, estimates or opinions contained in this note, and no liability is accepted for any such information, representation, estimate or opinion. All opinions and estimates included in this report are subject to change without notice. This note is confidential and is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose.

In some cases, this research may have been sent to you by a party other than SPA, and if so, the contents may have been altered from the original, or comments may have been added, which may not be the opinions of SPA. In these cases SPA is not responsible for this amended research.

The investments discussed in this report may not be suitable for all investors. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk. Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested. Where investment is made in currencies other than the currency of the investments, movements in exchange rates will have an effect on the value, either favourable or unfavourable.

This note is intended only for distribution to Professional Clients and Eligible Counterparties as defined under the rules of the Financial Conduct Authority and is not directed at Retail Clients.

Distribution of this note does not imply distribution of future notes covering the same issuers, companies or subject matter.

SPA has put in place a number of measures to avoid or manage conflicts of interest with regard to the preparation and distribution of research. These include (i) physical, virtual and procedural information barriers (ii) a prohibition on personal account dealing by analysts and (iii) measures to ensure that recipients and persons wishing to access the research receive/are able to access the research at the same time.

You are advised that SPA and/or its partners and employees may have already acted upon the recommendations contained herein or made use of all information on which they are based. SPA is or may be providing, or has or may have provided within the previous 12 months, significant advice or investment services in relation to some of the investments concerned or related investments.

SP Angel Corporate Finance LLP is a Company registered in England and Wales with Company number OC317049 and its registered office is SP Angel Corporate Finance LLP, 35 – 39 Maddox Street, London W1S 5PP United Kingdom. SP Angel Corporate Finance LLP is Authorised and Regulated by the Financial Conduct Authority whose address is 25 The North Colonnade, Canary Wharf, London E14 5HS and is a Member of the London Stock Exchange plc.

SP Angel Corporate Finance LLP definition of research ratings:

Expected performance over 12 months: Strong Buy - Expected return of greater than +100% Buy - Expected return of greater than +15%, Hold - Expected return from -15% to +15%, Sell - Expected return of less than -15%

*SP Angel acts as Nominated Advisor and Broker to Union Jack Oil