

# Union Jack Oil plc

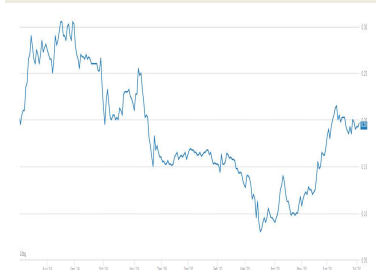
## Initiation of coverage

Union Jack Oil (UJO) is an independent oil & gas exploration and production (E&P) company with a focus on the well-understood East Midlands Basin, onshore UK. The company possesses a broad portfolio of licence interests, the most prominent of which is a 16.665% stake in PEDL183 in North Humberside which contains the West Newton oil and gas discoveries; possibly the largest onshore hydrocarbon development in the UK over the last 40 years. With an Extended Well Test (EWT) on the West Newton A-2 discovery well and further appraisal drilling on the nearby West Newton B site expected in H2 2020, we believe that these parallel activities will confirm the commerciality or otherwise of this exciting and potentially company making asset.

- ▶ In August 2019, initial testing of the West Newton A-2 (WNA-2) discovery well indicated a substantial accumulation of both oil and gas in the Kirkham Abby Formation and the operator, Rathlin Energy (UK) Limited (Rathlin), suspended the well test in order to conduct technical studies on the oil column in particular. Subsequent analysis of the well data and associated 3D seismic enabled Rathlin to publish a significant upgrade to estimated hydrocarbons in place at WNA-2 and the operator now has all the statutory permissions in place to resume testing.
- ▶ The West Newton partners also have approvals in place to drill two additional appraisal wells, WNB-1 and WNB-2, to further probe the Kirkham Abbey reservoir and test the deeper Cadeby Reef Formation at a separate location c.2.5km from the WNA-2 well site. Further success here will represent major upside to the West Newton discoveries if drilling confirms the extent of this significant hydrocarbon accumulation.
- ▶ UJO also holds a 40% interest in PEDL180 and PEDL182 which contain the Wressle discovery in North Lincolnshire. This is an accumulation of 0.6 mmbbls of 2P reserves scheduled for development in H2 2020 following the landmark grant of planning approval in January 2020. The commencement of production at an expected gross rate of c.500 bopd will increase UJO's net production by a factor of more than ten times providing valuable cash flow to the company.
- ▶ UJO's third core asset is a 30% interest in PEDL253 which contains the Biscathorpe discovery. The Biscathorpe-2 appraisal well, completed in July 2019, confirmed the presence of hydrocarbons in two intervals and the results of this well coupled with reprocessing of existing 3D seismic have justified a sidetrack of Biscathorpe-2 to confirm the potential commerciality of the prospect.
- ▶ With cash resources of approximately £5m in the bank, UJO is fully funded to participate in the appraisal and development programme outlined in our summary above. As such, we anticipate significant news flow over the next 12 months as activity accelerates.

**UJO's management team has overseen the transition of the company from a junior player focused on relatively modest E&P opportunities to a potentially major onshore producer with significant exposure to several of the most exciting onshore oil and gas plays in the UK. To reflect this, we have established a current core valuation of 0.66p per share for UJO, although we believe that there is significant scope for a valuation representing many multiples of the existing share price. Our initial assessment is comprised predominantly of the company's interest in West Newton to which we have applied a range of early stage assumptions. These will almost certainly be subject to revision upon the outcome of several events including the completion of the next phase of the EWT, further appraisal drilling and the expected publication of an updated CPR.**

### Oil & Gas



Source: LSE

### Market data

Price (p)	0.19
12m High (p)	0.30
12m Low (p)	0.08
Shares (m)	15,440.9
Market Cap. (£m)	29.3
Net cash (debt) (£m)	5.0
EPIC	UJO
Free Float (%)	97%
Market	AIM

### Description

Union Jack Oil is a UK focused onshore oil and gas exploration, appraisal and development company. The company's core assets include a 16.665% interest in the West Newton oil and gas discoveries in East Yorkshire, a 40% stake in the Wressle field development located in Lincolnshire and a 30% interest in the nearby Biscathorpe discovery.

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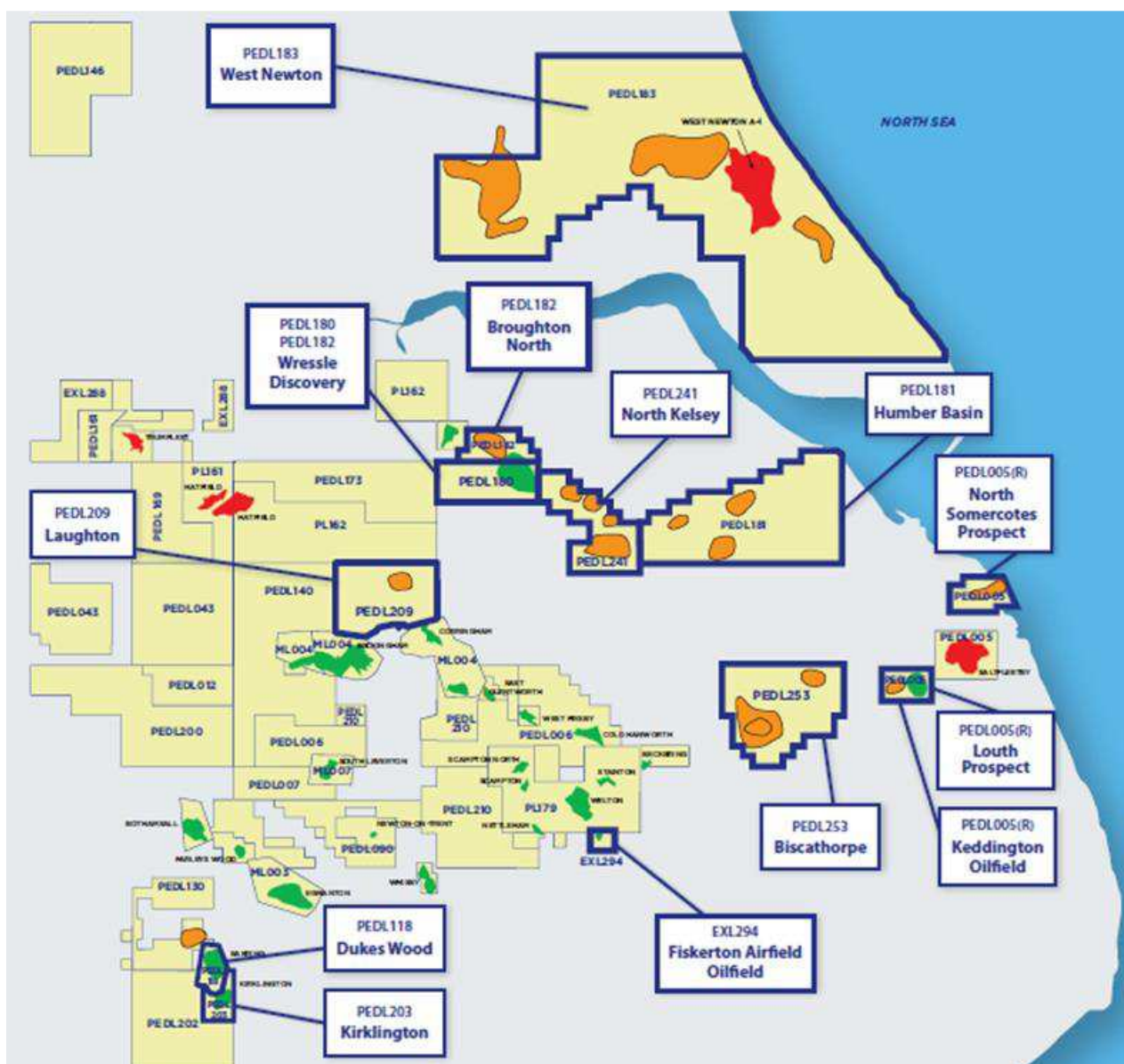
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# An introduction to Union Jack Oil (UJO)

Union Jack Oil (UJO) is an independent exploration, development and production company which has assembled a highly attractive portfolio of oil and gas licence interests in the onshore UK sector since the company’s introduction to AIM in July 2013. The company’s asset base is firmly focused on the East Midlands Basin in England which encompasses a broad portfolio of licences across Humberside and Lincolnshire as seen on the summary map of UJO’s licences below.

The company possesses a highly experienced board of directors which has overseen the transition of UJO from a junior player focused on relatively modest E&P opportunities to a potentially major onshore producer with significant exposure to several of the most exciting onshore oil and gas plays in the UK, the most important of which could be the West Newton appraisal programme in North Humberside.

## UJO’s licence interests and other major hydrocarbon accumulations in the East Midlands Basin



Source: Union Jack Oil

## Core asset summary

Within the company's portfolio of core licences, UJO's primary asset is a 16.665% interest in PEDL183 which contains the West Newton discoveries, potentially the largest onshore UK hydrocarbon development in the last 40 years. We expect that activity on West Newton will accelerate over the second half of 2020 with the dual focus of an EWT on the existing West Newton A-2 site in parallel with a two-well appraisal drilling programme on the West Newton B site at a nearby yet separate location.

UJO also has a 40% interest in the Wressle discovery located on PEDLs 180 and 182 in North Lincolnshire. With planning permission finally granted in January 2020, the operator, Egdon Resources is now in a position to complete the final stages of the project's development with first oil production expected in H2 2020. With gross production expected to commence at a rate of 500 bopd (UJO: 200 bopd), Wressle is expected to provide UJO with substantial cash flow over the coming years with which to fund company expenditure and some development costs.

UJO holds a 30% interest in the Egdon-operated PEDL253 which contains the Biscathorpe accumulation. The Biscathorpe-2 appraisal well delivered encouraging results in 2019. However, the licence partners have completed further technical work on Biscathorpe-2 with a planned side-track of the existing wellbore to assess the full potential of this highly promising prospect.

### Core assets within the UJO portfolio

Licence	Project	Status	Interest	Operator
PEDL183	West Newton	Appraisal	16.665%	Rathlin Energy (UK) Limited
PEDL180/182	Wressle	Development	40.0%	Egdon Resources
PEDL182	Broughton North	Appraisal	40.0%	Egdon Resources
PEDL253	Biscathorpe	Appraisal	30.0%	Egdon Resources
PEDL005R	Keddington	Production	55.0%	Egdon Resources
EXL294	Fiskerton Airfield	Production	20.0%	Egdon Resources

Source: Union Jack Oil

## Summary valuation of UJO

Within this report, we have outlined UJO's core onshore UK assets in detail and identified key areas of major value and potential upside within the portfolio. By way of a summary in the table below, we have established a core risked valuation for UJO of 0.66p per share. We also note, that with an estimated £5m in cash on the balance sheet, UJO is funded to participate in its near term commitments which include participation in the upcoming EWT at the WNA-2 site, appraisal drilling at West Newton B, the final tranche of capex at the Wressle field development to bring this 500 bopd project on stream and also appraisal drilling at Biscathorpe which we anticipate in 2021.

### Summary indicative valuation of UJO

Asset	Description	Valuation \$m	Valuation £m	Per share p
PEDL183 (West Newton)	Kirkham Abbey gas component	28.0	22.3	0.14
	Kirkham Abbey oil component	54.3	43.3	0.28
	Exploration (Cadeby interval)	19.6	15.6	0.10
PEDL180 & 182 (Wressle)	Development	5.3	4.2	0.03
PEDL180 & 182 (Penistone Flags)	Contingent resources	7.3	5.8	0.04
PEDL182 (Broughton North)	Exploration	0.8	0.6	0.00
PEDL253 (Biscathorpe)	Appraisal	8.7	6.9	0.04
PEDL005R (Keddington)	Production	0.4	0.3	0.00
EXL294 (Fiskerton)	Production	0.1	0.1	0.00
Overheads	Corporate	-1.3	-1.0	-0.01
Cash (debt)	Corporate	6.3	5.0	0.03
Deferred consideration for Wressle	Corporate	-1.3	-1.0	-0.01
<b>Total</b>		<b>128.1</b>	<b>102.1</b>	<b>0.66</b>

Source: Shard estimates

### Share capital

Our valuation is based on the current outstanding share capital of 15,440.9 million shares. The company also has a modest amount of outstanding dilution represented by 640 million options and 6.1 million warrants held predominantly by directors and other staff members. Our diluted valuation offers negligible variance compared to our valuation outlined above and we have omitted it for the sake of clarity. However, with approximately 300 million options priced at between 0.09p and 0.11p per share, subsequent exercise of these options could provide an additional £0.3m to the company.

Throughout our report, we have assumed a Sterling/US Dollar conversion rate of £1.00: US\$1.26 for all conversions of asset values from US dollars into pence per share.

## PEDL183 - West Newton (UJO: 16.665%)

In late 2018, Union Jack (UJO) completed a farm-in to UK onshore licence PEDL183 covering 176,000 acres in East Yorkshire (see map below). PEDL183, which contains the West Newton hydrocarbon discoveries, is operated by Rathlin which holds a 66.67% interest in the licence. The balance of direct interests in PEDL183 comprises Union Jack and Reabold Resources which each hold working interests of 16.665%.

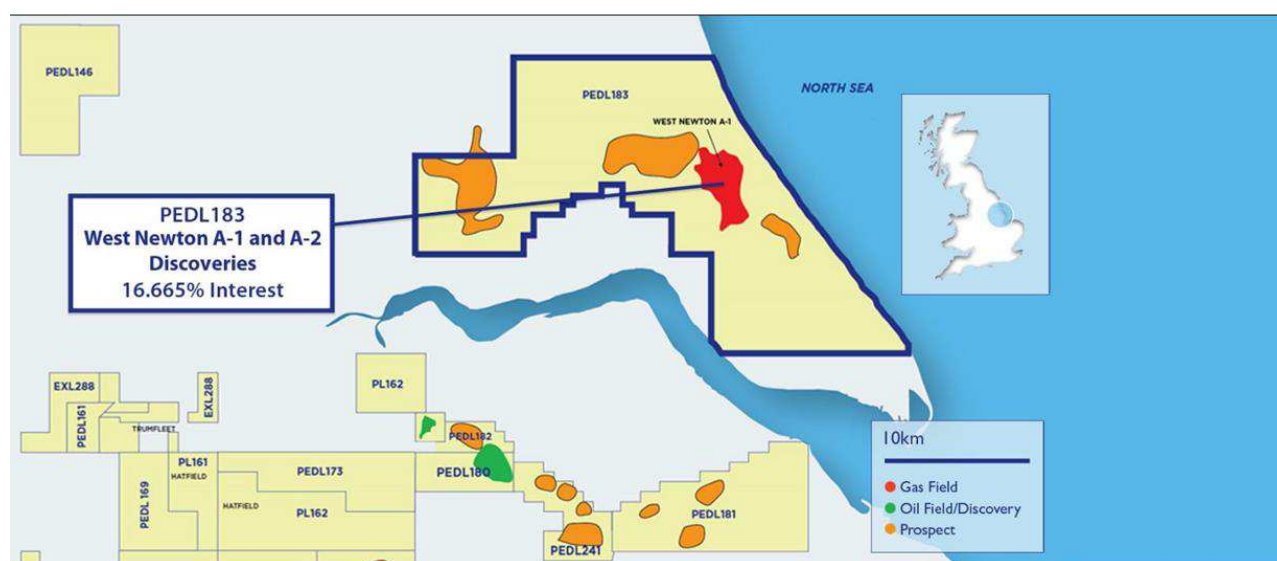
### Licence partners in PEDL183 (last stated interests)

Project	Licences	Status	Partners	Interest
West Newton	PEDL183	Appraisal	Rathlin Energy (operator)	66.7%
			Union Jack	16.665%
			Reabold Resources*	16.665%

Source: Union Jack

\*We note that Reabold also holds a 59.48% direct interest in Rathlin providing Reabold with a total net direct and indirect interest of 56.3% in the West Newton project.

### Location of PEDL183 and the West Newton A-1 and A-2 wells



Source: Union Jack Oil

### Initial resource estimates

The original West Newton A-1 (WNA-1) discovery, drilled by Rathlin in 2013, was estimated to hold pre-drill gross Best Estimate Contingent Resources of 189 BCF of gas with an associated 72% geological chance of success (GCoS). This estimate was assigned to the Kirkham Abbey gas formation and the source of this assessment was provided by Connaught's internal estimates supported by a 2017 Competent Person's Report (CPR) compiled by Deloitte Canada. Additional upside on PEDL183, represented by the deeper Cadeby Reef formation oil prospect, was ascribed best estimate gross prospective resources of 79.1 mmbbls and a pre-drill estimated GCoS of 24% based on the same CPR.

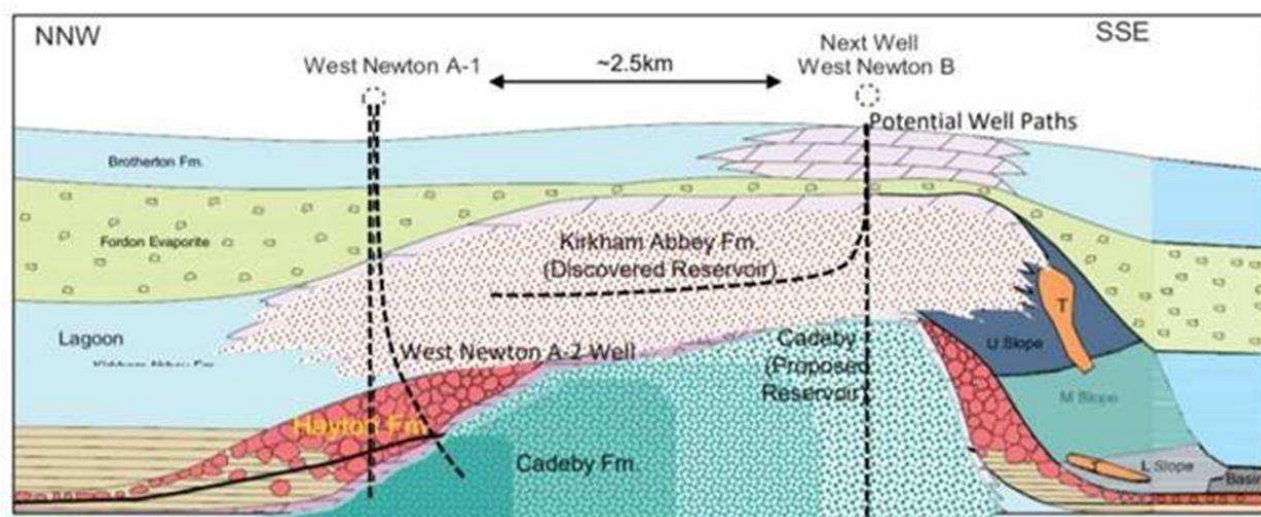
The West Newton licence area is located in the western sector of the Southern Zechstein Basin which encompasses the prolific UK offshore Southern Gas Basin. In particular, the WNA-1 and WNA-2 discoveries are on trend with the offshore Hewett gas complex located close offshore to the northeast of Bacton in Norfolk.

## Drilling and testing success

On 26 April 2019, the West Newton A-2 well (WNA-2) was spudded to appraise the discovery made by the initial West Newton A-1 (WNA-1) discovery well. WNA-2 was drilled from the original WNA-1 drill pad and reached a total depth of 2,061 metres on 9 June 2019. Preliminary data from the well suggested that the discovery was at least as big as the pre-drill estimate implying that West Newton could be the largest onshore UK gas field discovered over the last 40 years, assuming that subsequent testing confirms the scale of the resource.

An EWT commenced on 20 August 2019 and was expected to take 4-8 weeks. However, initial testing indicated a substantial accumulation of oil and gas rather than solely a gas discovery as originally anticipated. Early analysis indicated a significant hydrocarbon column of 65 metres in the Kirkham Abbey Formation comprising a gross oil column of 45 metres underlying a gross gas column of 20 metres. The operator suspended the EWT in order to optimise its operations and conduct a series of technical studies, the results of which are outlined below. One of the primary aims of this pause was to revise the well test design to focus on the oil column at a later date.

### West Newton A-1 and A-2 wells and the West Newton B proposed well location



Source: Reabold Resources

### Upgraded potential volumes for the Kirkham Abbey formation reservoir

On 11 November 2019, Rathlin announced the results of a detailed range technical studies focusing on the Kirkham Abbey formation and subsequently upgraded its estimated volumes of in-place hydrocarbons within the reservoir. Of particular interest is the conclusion that the dominant phase of the in-place volumes is oil rather than gas and that these volumes are indicated to be significantly greater than those assumed by the existing CPR produced prior to the drilling of WNA-2.

Subsequent to the drilling of WNA-2, Rathlin undertook a range of technical studies including core analysis, petrophysical evaluation, sedimentology and hydrocarbon geochemical characterisation, the findings of which were integrated with the results of existing 3D seismic data and the WNA-1 well. This enabled Rathlin to upgrade its estimated volumes of hydrocarbons in place in the Kirkham Abbey formation reservoir as seen below.

### Gross base and upside case in-place hydrocarbon volumes in the Kirkham Abbey formation

Case	Liquids (mmbbls)	Gas (Bcf)
Base case	146.4	211.5
Upside case	283.0	265.9

Source: Rathlin Energy estimates\*

*\*We note that this assessment of the estimated hydrocarbons in place should not be interpreted as an indication of ultimately recoverable reserves. As such, the partners in the West Newton project intend to commission a revised CPR to reassess the project volumetrics based on the data acquired from WNA-2.*

## Basis of evaluation

Rathlin's basis for the re-evaluation of the Kirkham Abbey formation reservoir was based predominantly on the assessment of drilling results from the WNA-2 well. The identification of the oil leg in particular was based on C5+ readings (pentanes – a product of natural gas) in the mud gas, an industry standard means of determining fluid type in a reservoir. This was combined with analysis of drilling samples, fluorescence from core and surface samples and the results of downhole logs.

Key to the findings was the analysis of the 28 metres physical core recovered from the Kirkham Abbey reservoir yielding key sedimentological and depositional information and tied into the downhole log data. With the range of information from the WNA-2 well integrated with the existing 3D seismic survey which covers the entire West Newton area, Rathlin was able to update the range for the reservoir rock volumes and also derive porosities, hydrocarbon saturations and fluid characterisations in order to arrive at the current in-place hydrocarbon estimates outlined above.

### Upside in the deeper Cadeby Reef Formation

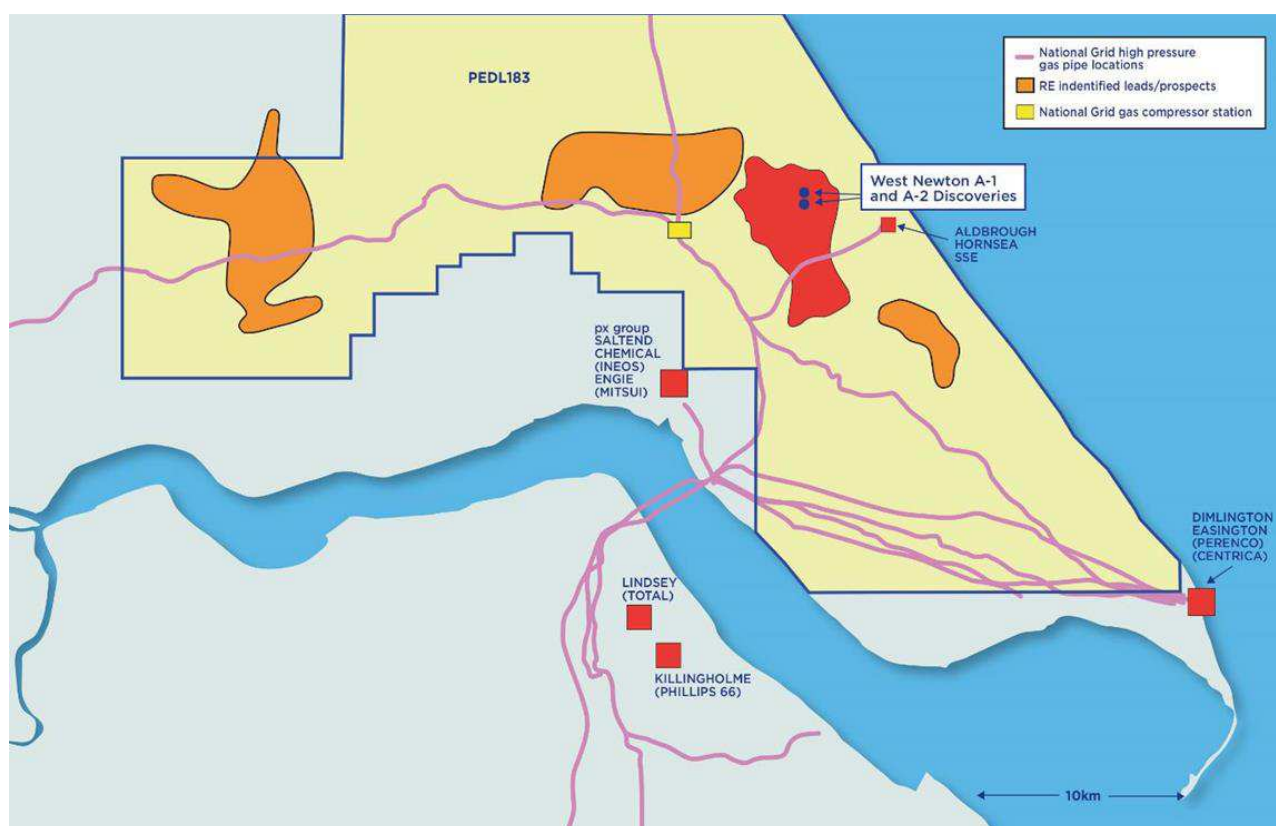
The scale of West Newton accumulation could be augmented further with the next well on the licence planned to target the deeper Cadeby Reef formation as outlined previously. This has been termed West Newton B and is expected to be drilled at a location some 2.5 km to the southeast of the West Newton A site. Further success at the B site and within the Cadeby in particular has the potential to add substantial further hydrocarbon resource upside, confirming West Newton as potentially the largest onshore hydrocarbon discovery in the UK over the last 40 years.

### Market for gas already established

The partners have noted that West Newton is located in an area of abundant production infrastructure near the city of Hull. Consequently, we believe that material volumes of gas could be developed quickly for delivery into local markets at comparatively low cost.



### Local gas infrastructure and potential customer base in the PEDL183 area



Source: Union Jack Oil

## The West Newton A-2 Extended Well Test (EWT)

In an announcement by Rathlin on 20 February 2020, all necessary equipment has been identified to recommence the EWT in the current year. As the test has been redesigned to focus on the oil leg within the Kirkham Abbey formation, the operator was required to obtain regulatory approvals prior to the recommencement of the new EWT. In particular, the Health and Safety Executive's (HSE) 21-day Borehole Sites and Operations Regulations notification period has been satisfied with no objections raised by the HSE and Rathlin filed a revised operating plan to the Environment Agency (EA) for approval.

In late April 2020, a positive decision document in respect of the testing of the WNA-2 well was received from the EA by Rathlin. The document granted a variation to the permit for the WNA-2 site and associated WNA-2 testing operations. This variation will allow Rathlin to use mechanical methods such as a pump-jack (nodding donkey) for lifting wellbore fluids and for the utilisation of a smaller incineration unit during the testing of the WNA-2 well.

### Anticipated activity

Once government guidance permits operations to recommence at the WNA-2 site, we expect that the operator will mobilise equipment to the well site and the EWT will re-commence. This programme is likely to include pulling the existing completion assembly from the well, running a new tubing and pumping bottom hole assembly and the installation of a pumping wellhead.

These operations will be followed by the running in of the pump and well rods and the installation of a surface pumping unit. The WNA-2 well will then be tested to recover load fluid, directing all recovery through the test unit and incinerator. The well will be monitored for inflow and will be shut-in and suspended following the EWT.

## Appraisal drilling at West Newton B

UJO announced on 15 April 2020 that preparatory work at the West Newton B site had commenced. Pre-construction works started during the week commencing 6 April 2020 and to date, additional land drainage has been installed in the affected fields surrounding the site. Two water monitoring boreholes have also been installed and baseline sampling will be undertaken in line with current legislative guidelines.

On 4 May 2020, work commenced on the construction of the West Newton B access track and this activity is the subject of an archaeological watching brief and is expected to be completed soon. In due course, site construction works will commence on the West Newton B drilling site. This phase of the programme is expected to take 5-6 weeks. Drilling of the WNB-1 well will commence following the completion of the access track and site construction activities.

### Permissions allow two wells

We note that statutory planning permissions are in place to drill two additional wells on the West Newton B site. These have been termed WNB-1 and WNB-2. The proposed locations of these wells are considered to be optimal to test the wider potential of the Kirkham Abbey formation. However, the WNB-1 and WNB-2 wells will also test the possible presence of the deeper Cadeby Reef formation, which as outlined previously, has an ascribed pre-drill best estimate gross resource estimate of 79.1 mmbbls.

It is important to note that the permitting process and subsequent preparation for the commencement of drilling operations at the West Newton B site are independent of the EWT at West Newton A-2 well site. In this regard, the bottom hole drilling location for the B-1 appraisal well has been finalised and drilling is expected to begin during the second half of 2020.

## West Newton valuation assumptions

We note that our assumptions for West Newton are highly indicative at this stage and will be subject to change, particularly given the likelihood of the production of a new CPR on the asset. However, we have assessed the preliminary valuation of the gas component with the Kirkham Abbey formation based on the operator's base case in-place gross resource estimate of 211.5 BCF. To this we have applied a recovery factor of 72% and a calculated unit NPV of US\$1.53 per mcf of gas in the ground. After the application of a geological chance of success in line with that outlined in the original CPR we arrive at our risked valuation of the company's 16.665% interest.

### Indicative valuation of gas component of West Newton

Variable		Base case	Upside case
Gas in place	BCF	211.5	265.9
Recovery factor	%	72%	72%
Unrisked resource	mmbbls	152.3	191.4
GCoS	%	72%	72%
Risked resources	mmbbls	109.6	137.8
Unit NPV	USD	1.53	1.53
Gross NPV	US\$m	168.0	211.5
UJO interest	%	16.665%	16.665%
<b>Risked net NPV</b>	<b>US\$m</b>	<b>28.0</b>	<b>35.2</b>

Source: Operator estimates and Shard estimates

We have applied the same methodology to Rathlin's base case in-place oil volume estimate of 146.4 mmbbls within the same Kirkham Abbey formation. To this we have applied a recovery factor of 25% and a unit NPV of US\$12.37 per barrel. We have also applied a 72% chance of success for the oil component of the discovery. This generates substantial additional risked upside to the original West Newton discovery although we acknowledge that this will be also subject to review when the results of both the EWT at the West Newton A site and an updated CPR are available.

### Indicative valuation of liquids component of West Newton

Variable		Base case	Upside case
Oil in place	mmbbls	146.4	283.0
Recovery factor	%	25%	25%
Unrisked resource	mmbbls	36.6	70.75
GCoS	%	72%	72%
Risked resources	mmbbls	26.4	50.9
Unit NPV	USD	12.37	12.37
Gross NPV	US\$m	326.1	630.3
UJO interest	%	16.665%	16.665%
<b>Risked net NPV</b>	<b>US\$m</b>	<b>54.3</b>	<b>105.0</b>

Source: Operator estimates and Shard estimates

### Cadeby upside

The West Newton partners have expressed their intention to target the deeper Cadeby formation as part of the West Newton B site appraisal programme. The Cadeby formation is believed to contain over 79 mmbbls of oil with a 24% GCoS. Using similar methodology but with more aggressive risk factors (including the application of a separate commercial risk factor) than those applied to the Kirkham Abbey interval; we have ascribed an indicative valuation to this exploration prospect. We apply this additional risk factor to account for a range of non-technical variables such as future funding requirements (particularly unfunded activities), permitting for potential development activities.

### Indicative valuation of Cadeby prospect at West Newton

Variable		Base case
Unrisked prospective resources	mmbbls	79.1
GCoS	%	24.0%
Risked prospective resources	mmbbls	19.0
NPV per bbl	USD	12.37
Gross NPV	US\$m	234.9
UJO interest	%	16.665%
Net NPV to UJO	US\$m	39.1
Commercial risk factor	%	50%
<b>Risked net NPV</b>	<b>US\$m</b>	<b>19.6</b>

Source: Operator estimates and Shard estimates

### Carbon intensity study provides a boost – West Newton rated AA

Although West Newton is not yet at the commercial development stage, UJO noted the publication of the positive conclusions of a Carbon Intensity Study on West Newton project undertaken by GaffneyCline & Associates, the international petroleum consultancy on 16 June 2020. The study highlighted several highly promising aspects with regard to West Newton, the most pertinent of which was that project has an AA rating for Carbon Intensity for its potential oil production.

This finding is based on GaffneyCline's estimate that West Newton could produce the equivalent of just 5 grammes of CO<sub>2</sub> per megajoule of energy created which ranks the project at a Carbon Intensity level both significantly lower than the UK average and compared to other onshore comparators. The study also highlighted that this number could be further reduced to just 3.5g/MJ by applying gas-to-grid technologies for the gas output. This would be augmented by other activities such as reducing flaring and venting emissions with the application of the best available technology.

# PEDL180 and PEDL182 - Wressle (UJO: 40%)

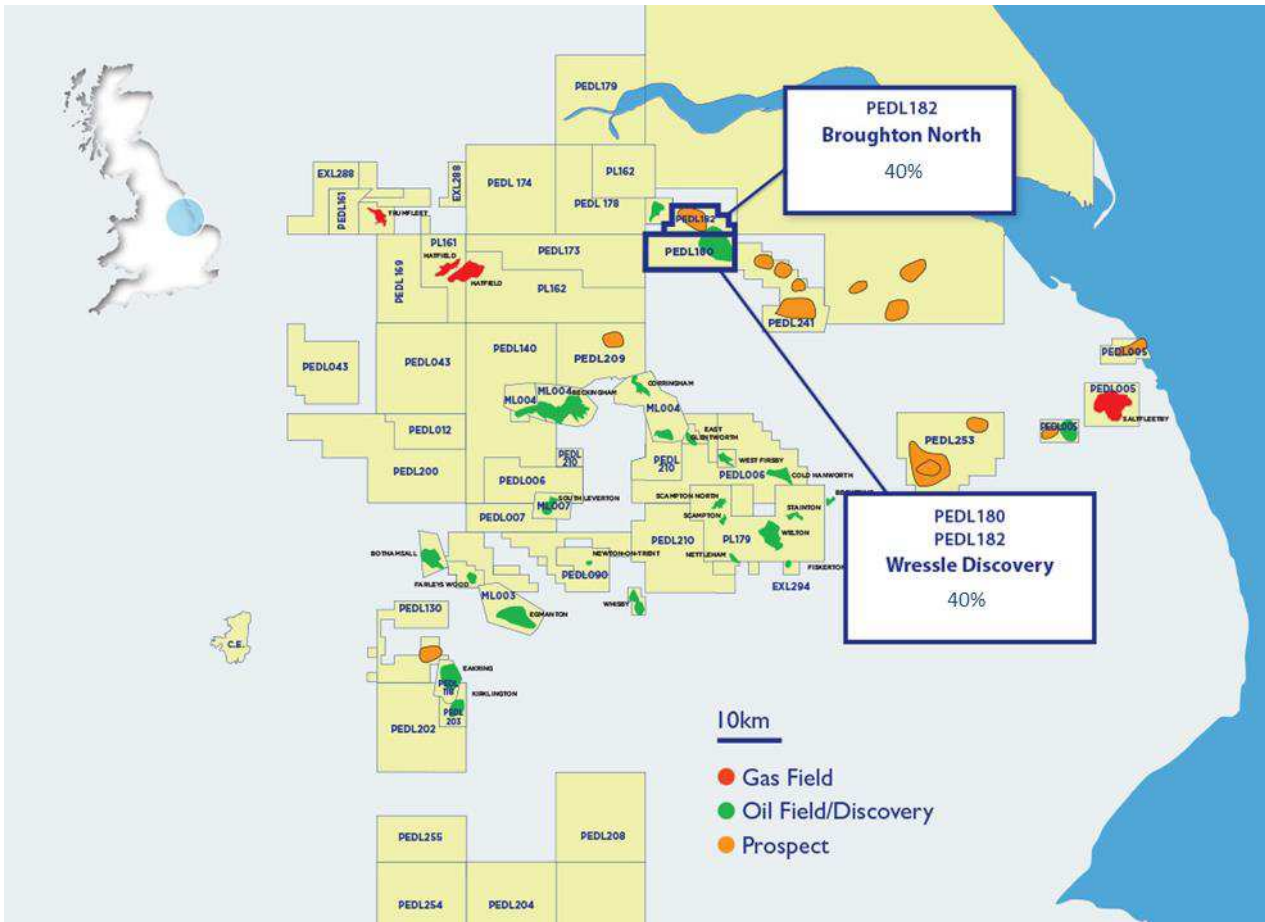
UJO holds a 40% interest in PEDL180 and PEDL182 which are located on the western margin of the Humber Basin in Lincolnshire. The licences contain the Wressle discovery which has proven reserves, planning consent to develop and significant contingent resources upside. Wressle is situated within a recognised hydrocarbon fairway and is on trend with the producing Crosby Warren oil field and the Broughton oil discovery located immediately to the northwest as seen on the map below.

### Equity partners in PEDL180 and PEDL182

Project	Licences	Status	Partners	Interest
Wressle	PEDL180 and 182	Development	Egdon Resources (operator)	30.0%
Broughton North	PEDL182	Appraisal	Europa Oil & Gas	30.0%
			Union Jack	40.0%

Source: Union Jack

### Location of PEDL180 and PEDL182



Source: Union Jack Oil

## Recent increase in Wressle interest

On 8 June 2020, UJO acquired former partner's Humber Oil & Gas Limited's (Humber) 12.5% economic interest in PEDL180 and PEDL182 to boost the company's stake to 40%. Under the terms of the deal, UJO paid a cash consideration of £0.5m from existing resources and will also pay a deferred consideration to Calmar LP of £1.04m on 'first commercial oil'. Calmar LP is the appointee of Celtique Energie Petroleum Limited (the original vendors in the acquisition by Humber). Gneiss Energy Limited acted as financial adviser to Humber in respect of this transaction.

In respect of the deferred consideration element of this transaction, UJO has initiated discussions with third-party debt providers to evaluate debt financing of this tranche of the acquisition consideration. Given that Wressle is expected to deliver net revenue to UJO of over US\$3.7m in the first year alone (assuming an oil price of only US\$50/bbl when the field comes on stream at 500 bopd) upon the commencement of production and the project is a low-cost, low risk development, we do not anticipate that the company will encounter significant difficulties securing short term financing to repay the deferred consideration to Calmar when production comes on stream.

We note that under the terms of the acquisition, the newly acquired interest in PEDL180 is also the subject of a 2.5% Net Profits Interest (NPI) payable to a third party as a result of the original acquisition by Humber from Celtique. As with the deferred consideration, this NPI will only become payable following commercial production at Wressle and after recovery of all costs including, drilling, testing, planning and development.

### Acquisition makes economic sense

We believe that UJO's acquisition of a further 12.5% in Wressle was an attractive opportunistic move by the company. For a total consideration of only £0.5m, UJO has secured a further 315,000 boe of reserves and contingent resources at Wressle, most of which is oil. This does not include additional upside from Broughton North, where UJO has acquired exposure to a further 75,000 boe of unrisks prospective resources.

## The Wressle-1 discovery well

The Wressle-1 conventional exploration well was spudded in July 2014 to probe the Wressle prospect which was defined on proprietary 3D seismic data acquired by the operator Egdon in 2012. A deviated well was drilled to a total depth (TD) of 2,240 metres; equivalent to 1,814 metres TVDSS (true vertical depth sub-sea). The well intersected several Upper Carboniferous aged sandstone reservoirs in a structurally favourable position near the crest of the Wressle structure. Well log data indicated three primary reservoirs that were likely to contain hydrocarbons with sufficient porosity and permeability to flow at commercial rates. These are:

- Ashover Grit: Up to 6.1 metres measured thickness (5.8 metres vertical thickness)
- Wingfield Flags: Up to 5.64 metres measured thickness (5.1 metres vertical thickness)
- Penistone Flags: Up to 19.8 metres measured thickness (15.9 metres vertical thickness)

### Well testing confirms commercial rates

Four intervals were tested over February and March 2015 resulting in an aggregate flow test rate of 710 bopd during operations. The Ashover Grit tested at 80 bopd with 47,000 cfpd of gas during a 16 hour main flow period and the Wingfield Flags exhibited oil volumes of up to 182 bopd of oil and 456,000 cfpd of gas. The oil recovered was good quality with a gravity of 39-40° API with no water.

Two Penistone zones were also tested. Penistone Flags Zone 3 tested up to 1.7 mmcfpd of gas and up to 12 bopd of oil from a 9-metre perforated zone at the top of the formation. Gas flow rates were constrained by the equipment and flaring limits imposed by the environmental permit. The gas and oil were reported to be good quality, with the oil having a gravity of 35° API.

A deeper section of the Penistone termed the Penistone Flags Zone 3a tested 77 bopd in aggregate. Zone 3a was perforated over a 7.5 metre interval and produced good quality oil with a gravity of 33° API. A total of 98.5 barrels of oil were recovered during the test, of which flow induced by swabbing produced 34.3 barrels of oil. This equates to approximately 77 bopd.

### Recoverable resources for development

A CPR compiled by independent consultant, ERCE Equipoise has attributed gross 2P reserves to Wressle of 0.62 mmbbls of oil attributed primarily to the Ashover Grit reservoir with a smaller proportion in the Wingfield Flags interval. This is outlined in the table below. Volumes identified within the Penistone Flags remain classified as contingent resources at this stage as these resources do not yet have development planning permission and are likely to require additional drilling activity and field facilities which are not yet in the funding plans of the development partners.

### Gross recoverable and contingent oil resources at Wressle (mmbbls)

Recoverable reserves (mmbbls)	1P	2P	3P
Ashover Grit	0.26	0.54	1.12
Wingfield Flags	0.03	0.08	0.17
<b>Total</b>	<b>0.29</b>	<b>0.62</b>	<b>1.29</b>
Contingent resources (mmbbls)	1C	2C	3C
Penistone Flags	0.68	1.53	2.76

Source: ERC Equipoise Ltd

### Net reserves and resources

Following the acquisition of Humber's 12.5% interest in Wressle in June 2020, UJO boosted its combined reserves and resources base at Wressle to over 1.0 mmboe with further upside of 0.24 mmboe from prospective resources at Broughton North. This is outlined in the table below which depicts UJO's net interest in all three classifications of resources at PEDLs 180 and 182.

### Gross and net reserves and resources estimates for the Wressle field

Reserves and resources	Formations	Oil mmbbls	Gas BCF	Total mmboe
Gross 2P reserves	Ashover Grit, Wingfield Flags	0.62	0.20	0.65
<b>Net to UJO</b>		<b>0.25</b>	<b>0.08</b>	<b>0.26</b>
Gross 2C resources	Penistone Flags	1.53	2.00	1.86
<b>Net to UJO</b>		<b>0.61</b>	<b>0.80</b>	<b>0.75</b>
Gross mean prospective resources	Ashover Grit, Penistone Flags	0.51	0.51	0.60
<b>Net to UJO</b>		<b>0.20</b>	<b>0.20</b>	<b>0.24</b>

Source: ERC Equipoise Ltd

### Gas resources

Gas resources at Wressle are modest and ERCE has allocated only 0.2 BCF as justified for development from the Ashover and Wingfield intervals. It is expected that the gas produced will be monetised on site via small scale power generation and the electricity subsequently sold into the national grid. A project such as this could easily be scaled up for the larger gas resources ascribed to the Penistone Flags interval should development of this interval commence.

## PEDL182- Broughton North (UJO: 40%)

There is additional upside to the Wressle field in the form of the Broughton North discovery to which ERCE has attributed a mean gross prospective resource of 0.51 mmbbls. Broughton North is an adjacent fault block to the Wressle discovery and the same intervals that Wressle-1 intersected are expected to be present within the Broughton North structure. Although no timing has been determined for an exploration well on Broughton North, ERCE has attributed a Geological Chance of Success (GCoS) of between 40% and 49% to future drilling on the prospect.

Although a well was drilled by BP on the Broughton structure in 1984, we are unaware of any immediate plans to drill Broughton North at present. Nevertheless, a successful future drilling programme could increase the scale of a development at Wressle considerably providing attractive medium term upside to the project.

## Planning approval granted

Planning consent for the Wressle field development was rejected by North Lincolnshire Council's Planning Committee on several occasions during 2017 and most recently in November 2018. However, the operator, Egdon Resources, appealed this decision in January 2019 and a Public Inquiry held in Scunthorpe, Lincolnshire to hear Egdon's appeal against the refusal of planning consent commenced on 5 November 2019 and concluded two days later. The inquiry included a visit to the Wressle site and North Lincolnshire Council presented no evidence during the proceedings.

On 17 January 2020, Egdon reported that the Planning Inspectorate had upheld the appeal and granted planning consent for the development of the Wressle field. The Inspectorate also allowed the application for an award of costs against North Lincolnshire Council. With this major milestone now completed, Egdon is now focusing discharging the planning conditions and undertaking detailed preparations for the Wressle development.

### The forward development plan

UJO recently outlined that the plan for the development of Wressle comprises several key stages including:

- Discharging the planning conditions, finalising detailed designs, tendering and procurement of materials, equipment and services and finalising all HSE documentation and procedures
- Installation of the ground water monitoring boreholes and establishment of baseline conditions through monitoring
- Reconfiguration of the Wressle site
- Installation and commissioning of surface facilities
- Sub-surface operations
- Commencement of production

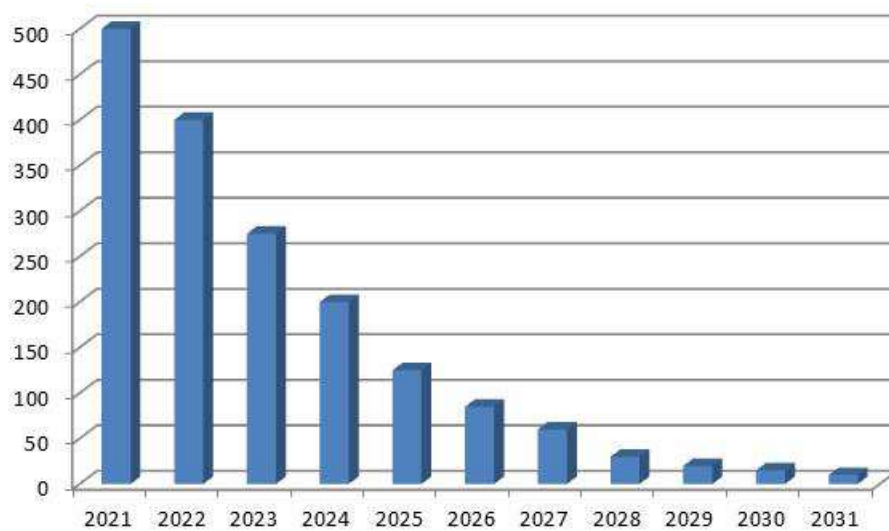
Progress to date has concentrated on completing all the appropriate documentation and planning conditions and initial ground work on site has included the installation of the groundwater monitoring boreholes with the main site operations accelerating during the final months prior to first production.

Within our assumptions, we have assumed that final gross capex will amount to approximately US\$2.6m of which UJO will be responsible for c.US\$1.04m. With this final stage complete, we anticipate first oil in H2 2020.

## Valuation of the Wressle field

For our valuation of Wressle, we have assumed that production commences in H2 2020 at approximately 500 bopd in line with the operator’s expectations. Our assumed production profile which produces the full 2P reserves over a 10+ year time period is outlined below.

### Wressle field gross production profile (bopd)



Source: Shard estimates

### Key economic assumptions

In order to arrive at a field NPV, we have also assumed the following economic factors

- Brent oil price of US\$50.00/bbl in 2021 increasing to US\$60.00/bbl thereafter and remaining flat over the life of the field
- Modest revenue from onsite gas-to-electricity production (less than 3% of total revenue)
- Unit opex less than US\$13.00/bbl in first three years of higher production
- Final gross capex of US\$2.6m to complete Wressle facilities
- Application of effective tax rate of 40% to profits from production

With these metrics applied to UJO’s interest in the field, we have applied a valuation of US\$5.3m (£4.2m) to the company’s 40% interest in the Wressle field development.

Perhaps more importantly, we expect that UJO will generate revenue to the company of at least US\$3.5m in each of the first two years of production at our assumed oil prices. This will provide the company with cash flow to fund company overheads and a portion of future exploration and development activity across other assets in the portfolio.



## Valuation upside on PEDL180 and 182

### Penistone Flags - 2C resources

The Penistone Flags interval represents a significant degree of upside to the Wressle development given the volume of 2C resources estimated to be in situ. In particular, these contingent resources will convert into reserves upon the completion of a Field Development Plan.

We have ascribed a valuation to the Penistone Flags using a range of similar variables to those ascribed to the development of the Ashover and Wingfield intervals at Wressle. To bring the Penistone into production, we have assumed that additional drilling and the construction of a drill pad is likely to be US\$10m-US\$12m gross in order to conduct a full development project. As such we have assumed that the Penistone Flags resources carry an unrisks unit NPV of US\$9.86/boe and within our core valuation, we have calculated that the oil and gas resources within the Penistone Flags could be worth US\$18.3m gross with UJO's net interest worth almost US\$7.3m.

### Broughton North discovery

We have applied a similar methodology to the Broughton North discovery although we anticipate that future capex to bring this part of the Wressle field into development is likely to be less than for the Penistone Flags at approximately US\$6.5m for an additional appraisal/development well. At a unit NPV of approximately US\$8.38/bbl for Broughton North, we have calculated an unrisks gross valuation of US\$4.3m for the prospect of which UJO's 40% interest could be worth US\$1.7m. However, after the application of a GCoS of approximately 45% to account for drilling risk in an adjacent fault block to the Wressle discovery, we have ascribed a valuation of approximately US\$0.8m to UJO's interest in Broughton North.

# PEDL253 – Biscathorpe (UJO: 30%)

Union Jack holds a 30% interest in PEDL253 which contains the Biscathorpe prospect in the county of Lincolnshire. PEDL253 is located in a highly prospective area of the Humber Basin and the Biscathorpe prospect is on trend with the Saltfleetby gas field to the northeast and the Keddington oil field to the southwest in which UJO holds a 55% interest.

## Equity partners in PEDL253

Project	Licences	Status	Partners	Interest
Biscathorpe	PEDL253	Appraisal	Egdon Resources (operator)	35.8%
			Union Jack	30.0%
			Montrose Industries Limited	19.2%
			Humber Oil & Gas Limited	15.0%

Source: Union Jack

## Location of PEDL253 (Biscathorpe)



Source: Union Jack Oil

## Preliminary drilling activity – Biscathorpe-2

The Biscathorpe-2 appraisal well was spudded in early January 2019 by the operator, Egdon Resources. The well was drilled to a total depth (TD) of 2,133 metres within the Dinantian Limestone interval. However, in February 2019, preliminary analysis indicated that the primary objective, the Basal Westphalian Sandstone was poorly developed at the Biscathorpe-2 well location and was not thickened with respect to the earlier Biscathorpe-1 well as anticipated in the pre-drill model.

The partners concluded that the Biscathorpe play was not properly tested by the well. However, the results of Biscathorpe-2 indicated that the Basal Westphalian Sandstone has the potential to be more thickly developed to the north and northeast of the Biscathorpe-2 well location. The well did record elevated gas readings and oil shows in the secondary target, the Dinantian Carbonate over a 99 metre interval indicating that an effective petroleum system was in evidence.

### Recent analysis focused on hydrocarbons in the Dinantian interval

Following the suspension of the Biscathorpe-2 well, Egdon re-processed and re-mapped up to 85 km<sup>2</sup> of existing 3D data on PEDL253 and concluded that analysis of the results of the Biscathorpe-2 well confirmed the likely presence of a 35 metre column of good quality oil in the Dinantian Limestone interval with hydrocarbon saturations greater than 50% in the upper zones of this horizon in evidence.

The partners in PEDL253 appointed independent geotechnical consultants, Applied Petroleum Technology (UK) Limited (APT) to perform a detailed analysis of the drill cutting samples from 20 intervals in the Biscathorpe-2 well. These comprised five from the Westphalian and 15 from the Dinantian. The objective of this study was to provide geochemical evidence of the presence of live hydrocarbons and also an assessment of the likely quality of the oil.

The APT report confirmed the presence of hydrocarbons in both intervals and also confirmed the existence of a significant column of high API gravity oil with the Dinantian interval. This was validated by the presence of a full range of gases from methane to pentane recorded during drilling which is indicative of a working petroleum system in proximity to the well.

A sample of oil from the nearby Union Jack-operated Keddington oilfield was used as a benchmark for comparison with the Biscathorpe samples and several positive correlations were identified. Like Keddington, the samples from both intervals in Biscathorpe were good quality and appear to be non-biodegraded and were comparable to those extracted from the Westphalian interval in Keddington. API gravity readings were 35° API and 33-34° API for the Westphalian and Dinantian respectively.

APT also confirmed the likely presence of a live oil column at the top of the Dinantian of 57 metres interpreted as being oil bearing. Additional data, including gas readings, also suggests the possibility of additional pay below a depth of 2,133 metres in the Dinantian.

### Plan to side-track existing wellbore

The primary target of the Biscathorpe-2 appraisal well was the Basal Westphalian sandstone which Egdon concludes was likely absent at the well location. However, the elevated hydrocarbon indicators in the deeper Dinantian Limestone suggests that a significant interval exists within the well and the partners now view licence PEDL253 considerably more positively. Technical work has now been concluded on Biscathorpe-2 and a side-track from the existing wellbore is planned to assess the full potential of this highly promising prospect.

In particular, new accessible target areas have been identified characterised by evidence of a thickened Westphalian sandstone reservoir on the reprocessed 3-D seismic. These areas will be targeted by a side-track of the existing Biscathorpe-2 well. Such a side-track could also target the oil column logged in the underlying Dinantian Carbonate interval.

## Biscathorpe resource assessment

### Westphalian resource estimates

Prior to the drilling of Biscathorpe-2, gross mean prospective resource estimates occupied a wide range from 1.84 mmbbls to 35.3 mmbbls (P90 to P10 range) with a P (Mean) of approximately 14.0 mmbbls. Following the more recent analysis of the prospect, the operator has attributed a gross mean prospective resources for the Westphalian target area alone of 3.95 mmbbls of oil, with an upside case of 6.69 mmbbls. Preliminary economic modelling by the operator demonstrates that the Westphalian target is economically robust, even in a lower oil price environment with break-even full-cycle economics estimated at US\$18.07 per barrel

Although the Westphalian objective was absent at Biscathorpe-2, hydrocarbon shows with background gas and sample fluorescence were observed over the entire interval from the top of the Dinantian interval to TD which represented a 157 metre interval of which a total of 57 metres was interpreted as being oil bearing in the petrophysical analysis.

### Dinantian resource estimates

APT also modelled the Dinantian interval and has attributed an oil in place estimate of 24.3 mmbbls with an upside case of 36 mmbbls. Although this represents a secondary target for a future sidetrack well, there is the possibility that this interval could represent an additional commercially viable play within the Biscathorpe licence area should the reservoir exhibit effective permeability, or the presence of fractures within this section. This would add significant resource upside above the principal Westphalian target which is the primary productive reservoir in both the Keddington and Saltfleetby fields which are on trend with Biscathorpe.

## Indicative valuation for Biscathorpe

On the back of the Biscathorpe assessment data outlined above, we have attempted to derive an initial risked valuation for the asset net to UJO. For the primary Westphalian target, we have applied a 40% GCoS against the prospective resources estimate and an in situ unit NPV of US\$10.80 per barrel. As such, our initial assessment of the Westphalian play at Biscathorpe is US\$5.1m net to the company.

### Indicative valuation of the Westphalian target at Biscathorpe.

Variable		Base case
<b>Prospective Resources</b>	mmbbls	<b>3.95</b>
Union Jack	%	30.0%
Net resources	mmbbls	1.19
GCoS	%	40%
Risked resources	mmbbls	0.47
NPV per bbl	USD	10.80
<b>Value to UJO</b>	<b>US\$m</b>	<b>5.1</b>

Source: Union Jack Oil, Shard estimates

### Dinantian upside potential

We have applied a similar methodology to the Dinantian interval at Biscathorpe which would represent a secondary but potentially significant target in the event that the reservoir demonstrated sufficient permeability or natural fractures throughout the zone. Although the oil in place number is substantial compared to the Westphalian, we have applied a low recovery rate and greater discounts to our assessment of this target. Our summary is outlined in the table below.

### Indicative valuation of the Dinantian target at Biscathorpe

Variable		Base
Oil in place	mmbbls	24.3
Recovery factor	%	15%
Unrisked resource	mmbbls	3.6
GCoS	%	40%
Risked resources	mmbbls	1.458
Unit NPV	USD	10.80
Gross NPV	US\$m	15.7
UJO interest	%	30%
<b>Net NPV</b>	<b>US\$m</b>	<b>4.7</b>
Commercial risk factor	%	25%
<b>Fully risked net NPV</b>	<b>US\$m</b>	<b>3.5</b>

Source: Union Jack Oil, Shard estimates

### Recent increase in UJO's interest

On 24 June 2020, UJO acquired a further 3% of PEDL253 from an existing partner in the licence, Montrose Industries Limited for a cash consideration of £115,000. On this basis, this deal values 100% of the licence at US\$4.8m at the pre-drill stage (a similar basis to our initial assessment). This represents a 23% discount to our combined assumption for both targets within Biscathorpe indicating a good deal for the company.

## Currently producing assets

### PEDL005(R) - Keddington (UJO: 55%)

UJO holds a 55% interest in the Keddington oil field following the acquisition of Terrain Energy's 35% interest in March 2020. The balance is held by the operator of PEDL005(R), Egdon Resources with the remaining 45%. Keddington is located along the highly prospective East Barkwith Ridge, an east-west structural high on the southern margin of the Humber Basin and as the map below indicates, PEDL005(R) is a production licence located on trend with the adjacent Louth, North Somercotes and Biscathorpe prospects in North Lincolnshire.

### EXL294 - Fiskerton Airfield oilfield (UJO: 20%)

UJO also holds a 20% interest in Egdon-operated EXL294 located in same hydrocarbon fairway as Biscathorpe, Keddington and Saltfleetby. Combined gross from Keddington and Fiskerton Airfield was modest in 2019, averaging approximately 50 bopd from Carboniferous aged sandstone reservoirs. We assume that that Keddington currently produces approximately 28 bopd with Fiskerton Airfield producing the balance of c.20 bopd from two producing wells. This would indicate that UJO's net share of production is approximately 15-20 bopd depending on monthly fluctuations in respective field output.

### Equity partners in PEDL005(R) and EXL294

Project	Licences	Status	Partners	Interest
Keddington	PEDL005(R)	Production	Egdon Resources (operator)	45.0%
			Union Jack	55.0%
Fiskerton Airfield	EXL294	Production	Egdon Resources (operator)	80.0%
			Union Jack	20.0%

Source: Union Jack

## Potential production upside

Of the two producing assets, we believe that Keddington represents greater potential for additional production upside, as evidenced by UJO's deal to acquire a further 35% in the field from Terrain Energy on 9 March 2020 for only £200,000 plus £35,000 of assumed costs. We calculate that this deal valued the asset on a gross basis at approximately US\$0.84m (note that this deal was likely concluded prior to the collapse in oil prices after 9 March 2020).

Egdon and UJO conducted a detailed subsurface review of Keddington and the wider licence area in 2019 which resulted in an updated resource estimates generated by the operator. This review indicates that gross remaining mean contingent resources at Keddington are 567,000 bbls of oil of which 311,000 bbls are net to UJO. The study indicates that there is an excellent opportunity to sweep resources into the reserves category and increase production at Keddington significantly through the drilling of a relatively inexpensive development well from the existing production site.

Although we believe that such a programme has yet to be scheduled by the operator, Egdon has assessed the potential in-fill drilling locations at Keddington with a view to targeting a side-track drilling location in the future.

With the Wressle development likely to provide a significant boost to the company's production and activities at West Newton representing a considerably greater impact, we believe that Keddington represents a mid-ranking priority for UJO. Nevertheless, the Keddington site lease has been extended until 2029 and the current planning consent expires in 2058 with approval in place for the drilling of a further two wells. This provides the company with an expansive window to conduct further drilling at Keddington as management time and cash resources dictate. In particular, a sidetrack well at Keddington could provide a significant increase in field production and value to the company.

### Keddington upside

In addition to the un-swept oil resources in Keddington, a closely adjacent exploration opportunity exists at the Keddington South prospect where gross mean prospective resources are estimated to be 635,000 bbls of oil of which 349,250 bbls are net to UJO.

As part of the Terrain asset acquisition in March, UJO also boosted its interest in PEDL339 by 15% to 55% in line with its interest in Keddington. PEDL339 contains the Louth prospect, which is estimated to contain gross mean prospective resources of 600,000 bbls of oil. Further resources upside is represented by the North Somercotes prospect also part of licence PEDL005(R) but discrete from the Keddington site.

## Valuation of UJO's producing assets

On the assumption that there is no planned development drilling activity on Keddington within the next 12 months, we have valued UJO's 55% interest at approximately US\$0.4m to the company. This assumes that gross production is approximately 30 bopd in 2020 declining naturally thereafter for the next 10 years. After the application of unit opex in the US\$20.00-US\$25.00 per barrel range and zero capex, we believe that Keddington has the potential to generate over US\$125,000 of cash flow to the group annually depending on the level of oil prices.

With regards to Fiskerton Airfield, we have ascribed a valuation net to UJO's 20% interest of less than US\$0.1m. However, like Keddington, this asset requires so substantial capex commitments and delivers modest but low maintenance cash flow before tax.

## Non-core portfolio assets

Union Jack has amassed a significant portfolio of acreage over the last five years. However, the recent progress particularly in regard to West Newton, Wressle, Biscathorpe and the Keddington group of licences has high-graded these assets within company's portfolio. As such, several less developed licences now represent non-core assets to the company.

These include PEDL241 (UJO: 20%) which includes the drill-ready North Kelsey prospect within the proven Humberside platform. This is subject to the completion of a successful future farm out process and UJO believes that this prospect could be drilled during 2021. UJO also holds 16.67% interests in PEDL118 (Dukes Wood) and PEDL203 (Kirklington) which both contain existing discoveries.

The PEDL201 licence, in which UJO holds 26.25% is known as 'Widmerpool Gulf' (formerly known as Burton-on the-Wolds) and contains significant non-conventional Bowland Hodder shale potential. However, during November 2019, the UK Government introduced a moratorium on non-conventional operations and the Board has fully impaired this asset.

PEDL181 Humber Basin (UJO: 12.5%) is located within the Humber Basin and also holds non-conventional upside. However, as in the case of PEDL201, UJO has decided not to continue its interest in this licence interest and the company will withdraw during 2020. As with PEDL201, PEDL181 has also been fully impaired. PEDL209 known as Laughton (UJO: 10%) has no activity planned for the foreseeable future and the company has elected to withdraw from this interest during 2020.

## Officers and Directors

### David Bramhill – Executive Chairman

Mr Bramhill has over 40 years' experience in the natural resources industry. He has directed and managed several energy companies and was the former managing director of OilQuest Resources plc, subsequently acquired by EnCore Oil plc. David was an executive director at the time of Nighthawk Energy plc's AIM flotation in March 2007 and a non-executive chairman of Wessex Exploration plc when that company floated on AIM in March 2011. He resigned from these companies in 2010 and 2012 respectively. David 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 of corporate experience in the hydrocarbon and mining industry. He has managed several energy companies and is a former director of OilQuest Resources plc and Nighthawk Energy plc, having been a director of these two companies at the time of their respective flotations on AIM. 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, Graham 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 Limited. In 1988 he joined Teredo Petroleum PLC ("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 Plc. He was subsequently company secretary for both Ophir Energy Plc and Aurelian Oil & Gas Plc. He is currently an executive director of Montrose Industries Limited.

Source of information: Union Jack Oil plc website



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