

9 July 2019

Stock Data

Ticker	UJO LN
Share Price:	0.21p
Market Cap:	£25.4m
	US\$31.8m

Price Chart



West Newton: potential game-changer

Union Jack Oil is an AIM-listed 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.

- The Company recently announced a highly successful appraisal well on the West Newton gas discovery in which it holds a 16.665% stake. An extended well test (EWT) is now planned for the well, which will take place in Q3-2019. A successful test will likely prove the commerciality of the discovery and also provide more information as to the ultimate size and value of the field, although it is already clear that this could be a genuine game-changer for UJO. A significant liquids column was intersected in the recent well, which could have a material positive impact on valuation.
- Prior to the drilling of the recent West Newton A-2 appraisal well in June, the licence operator (Rathlin Energy) had estimated best estimate contingent resources of 189 bcf of gas and an NPV10 in excess of \$300 million. Following the successful drilling of the well, and the impending EWT on West Newton A-2, the likelihood is that this estimate will increase substantially, especially if it is liquids-rich. Moreover, there is significant potential value in the rest of UJO's portfolio of assets.
- On the back of this successful appraisal well result we feel comfortable reducing our risking on West Newton and also including a contribution from the liquids column to our valuation. We are resuming research coverage with a DCF-based target price of 0.55p/share, or nearly 3x the current share price. It should be stressed that we believe there remains considerable upside from here, albeit subject to the outcome of the EWT.
- UJO only farmed into licence PEDL183 last October, agreeing with Rathlin Energy to take a 16.665% interest in the licence in return for paying 25% of the cost of the West Newton A-2 appraisal well. In retrospect this now looks an excellent value-accretive deal and management should be applauded for this.
- The well itself encountered a substantial hydrocarbon accumulation within the Kirkham Abbey primary target, with a net 65 metre hydrocarbon interval. Crucially and unexpectedly, and below the gas target that was confirmed on logs, coring and logging of the well also confirmed a significant liquids column (presumably light oil or condensate).

*SP Angel acts as Nomad and Broker to Union Jack Oil PLC

Research

Finlay Thomson

+44 20 3470 0490

John Meyer

+44 20 3470 0490

Simon Beardsmore

+44 20 3470 0484

Sergey Raevskiy

+44 20 3470 0474

James Mills

+44 20 3470 0486

Sales

Richard Parlons

+44 20 3470 0472

Abigail Wayne

+44 20 3470 0534

Jonathan Williams

+44 20 3470 0471

Rob Rees

+44 20 3470 0535

Union Jack Oil cont...

- The EWT is expected to give much greater clarity on the quality of the liquids as well as the reservoir characteristics. Moreover the deeper Cadeby Reef target also had hydrocarbon shows and will be further tested by a future appraisal well, likely the West Newton B well, and potentially before the end of the year as it already has planning permission and funding. West Newton B is located some 2 kilometres south of West Newton A-2.
- In terms of what investors should be looking for from the EWT which should commence around early to mid-August, we understand that a conventional vertical carbonate well with appropriate porosity and permeability could flow at rates of approximately 100 – 150 bopd which could translate into 5 – 8x that amount in the context of a future long-reach conventional horizontal development well.
- The original budget for the West Newton A-2 well was £4.6 million, with UJO liable for £1.15 million of this. It is understood that the well took around 50 days to drill and core versus the original estimate of 40 days, although it was still completed within budget. The over-run was largely down to the extensive coring and logging that was undertaken on the well.
- The operator of the licence, Rathlin Energy, has commissioned Deloitte to prepare an updated Competent Persons Report (CPR) to incorporate the results of West Newton A-2 and the upcoming EWT. This could see a material increase in the NPV10 from the >\$300 million that Rathlin estimated for the West Newton project prior to drilling the success at West Newton A-2.
- In terms of future prospectivity on the PEDL183 licence, it should be noted that the West Newton structure covers an area of around 4,800 acres, within a licence of 176,000 acres. The company believes there is significant upside in the remainder of the acreage, with a number of exploration prospects significantly de-risked by the result of this well.
- UJO also has a 27.5% stake in the Wressle discovery in nearby licence PEDL180/182, which is an ongoing oil development project. Whilst relatively small (2.5 million barrels of 2P + 2C), the project could generate valuable cash flow for UJO in 2020 if planning approval is granted.
- Following the £2.25 million equity raise announced on 28 June, the company is now in a strong position to progress West Newton. The company is now fully funded for the EWT, which should commence in early to mid-August. The estimated cost of the flow test net to UJO is around £0.7 million and initial results could be as soon as late August.

- In terms of the future development of an onshore gas/condensate field in the UK, there are undoubtedly going to be development and related environmental considerations. Mitigating this is the existing pipeline infrastructure in the area, and the numerous marketing and sales options that the company has. There are two major UK gas terminals on the licence operated by Centrica and Perenco. The PEDL183 licence is also close to gas-fired electric generation facilities, including Killingholme A and Killingholme B operated by Centrica and Uniper.
- **Valuation:** On the back of this successful appraisal well result we feel comfortable reducing our risking on West Newton and also including a liquids column element in our valuation.
- This has the impact of increasing our target price from 0.44p/share previously to 0.55p/share, or nearly 3x the current share price. It should be stressed that there remains considerable upside from here, subject to the outcome of the EWT.

Valuation:

Field	Licence	Valuation (p/share)	
		Unrisked	Risked
Core			
	PEDL		
Keddington	005(R)	0.01	0.01
Wressle	PEDL 180	0.11	0.09
Balance Sheet Items	-	0.02	0.02
Core NAV		0.14	0.11
Appraisal & Development			
Biscathorpe - Appraisal	PEDL 253	0.27	0.07
Kirklington - Appraisal	PEDL 203	0.03	0.01
Dukes Wood - Appraisal	PEDL 118	0.10	0.01
West Newton - Appraisal	PEDL 183	0.64	0.21
Appraisal & Development NAV	-	1.04	0.29
Exploration			
North Kelsey - Exploration	PEDL 241	0.29	0.03
Louth - Exploration	PEDL 005	0.09	0.02
North Somercotes - Exploration	PEDL 005	0.04	0.01
Broughton North - Exploration	PEDL 182	0.01	0.00
West Newton - Exploration	PEDL 183	0.55	0.02
Ellerby - Exploration	PEDL 183	0.24	0.02
Spring Hill - Exploration	PEDL 183	0.22	0.02
Shale - Exploration	Alpha	0.56	0.03
Exploration NAV		2.00	0.15
Total NAV	-	3.18	0.55

Conclusion:

Whilst there are still questions to be answered around this successful appraisal well following the original West Newton discovery, the

appraisal well is causing considerable excitement for the joint venture partners and their investors, and rightly so.

This could be one of the most significant onshore discoveries made in the UK in years, if not one of the largest ever. With the EWT commencing in August, there could be a material near-term catalyst for the UJO share price.

An updated CPR fully incorporating the results of the coring, well logs, re-mapping of the reservoirs and the EWT in Q3 or Q4 could provide a further catalyst.

There also remains the possibility of a West Newton B well being drilled before year-end, targeting further upside from the Kirkham Abbey gas and liquids discovery as well as the deeper Cadeby Reef exploration prospect that is a 79 million barrel oil target.

**SP Angel acts as Nomad and Broker to Union Jack Oil PLC*

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: 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 Broker to this Company