

United Oil & Gas Plc*

10 December 2019

Stock Data

Share Price:	3.1p
Market cap.:	£19.2m*
Shares in issue:	619.2m*
Fully diluted equity:	712.5m*

*Pro forma until 23 Dec 2019

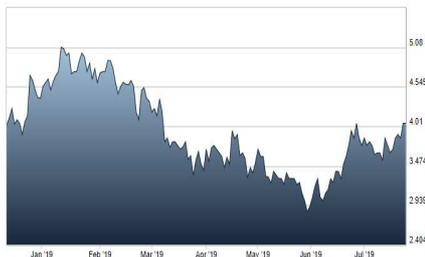
Company Profile

Sector:	Oil & Gas
Exchange:	AIM
Ticker:	UOG

Activities

Oil and gas exploration, development and production company with existing assets in the UK, Italy and Jamaica. Management strategy is to expand the current portfolio with value accretive acquisitions focused primarily on stable international jurisdictions.

Performance Data



Directors

Graham Martin:	Non-Exec. Chairman
Brian Larkin:	Chief Executive Officer
Jonathan Leather:	Chief Operating Officer
David Quirke:	Chief Financial Officer
Alberto Cattaruzza:	Non-Exec. Director

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United acquires a 22% interest in Abu Sennan

United has acquired a 22% interest in the Abu Sennan concession onshore Egypt from Rockhopper Egypt Pty Ltd for a total consideration of US\$16.0m, payable in a combination of cash and shares. When completed, the transaction, effective from 1 January 2019, will provide United with net production in excess of 1,100 boepd and exposure to an exciting multi-well drilling programme with the potential to deliver considerable upside.

Abu Sennan is located in the Western Desert region of Egypt and comprises seven development concessions with a total of 17 producing wells. Gross production from the licence is currently c.5,000 boepd of which approximately 1,100 boepd will be attributable to United's interest following completion of the transaction.

The most recently reported reserves at the end of June 2019 indicated that United's working interest 2P reserves will be 2.66 mboe, equating to gross reserves across the licence of 12.12 mboe. However, we note that recent infill drilling activity over 2019 has the potential to increase this number as 3P reserves are brought into the 2P classification.

United has paid a deposit to Rockhopper of US\$0.3m and will pay the balance of US\$15.7m upon completion of the transaction. Of this amount, US\$4.5m is payable in the form of 114.5 million new United shares at a price of 3.0p per share. BP has also provided a senior secured prepayment financing of US\$8.0m, repayable over 30 months, which has been entered into in relation to United's future oil and gas production. United intends to draw down the full amount to fund the Rockhopper acquisition.

To fund the balance of the acquisition, United has conditionally raised proceeds of US\$5.9m through the placing of 150.6 million new shares at 3.0p per share. This will be augmented by cash provided by a subscription for a further 8.4 million new shares at the placing price. The transaction to acquire the Rockhopper Egypt assets is conditional upon shareholder approval at a General Meeting to be held on 23 December 2019 and also the Egyptian government providing the deed of assignment to the Rockhopper acquisition.

At the start of 2019, Rockhopper announced plans to participate in a four well programme on Abu Sennan. Of these, the Al Jahraa-7, Al Jahraa-11 and Al Jahraa-12 wells have already been drilled and a commitment exploration well is also planned on the concession. Production from this programme has already contributed to a significant increase in field output to over 5,000 boepd compared to a rate of 3,800 boepd at the beginning of 2019.

We anticipate that the Abu Sennan partners will commit to an additional capex programme to drill a further four wells on the concession in 2020. We estimate that the cost of infill development drilling is modest at US\$3.0m – US\$4.0m per well. As such, we infer a net contribution of up to US\$3.5m for United's share of drilling expenditure in 2020, an amount that can be funded comfortably from the company's share of net cash from Abu Sennan.

Under the terms of the Abu Sennan PSC, the economics of the project are enhanced significantly by a historical recoverable cost pool of c.US\$112m. On the basis of four well work programmes in 2019 and 2020 only at this stage, we have valued United's 22% interest in Abu Sennan at US\$29m on a risked basis. Accounting for the dilutive impact of the consideration shares for the acquisition, the placing shares and the subscription shares, our fully risked aggregate valuation for United is now almost 10p per share representing a highly significant uplift to the current share price.

Acquisition of Rockhopper Egypt Pty Ltd

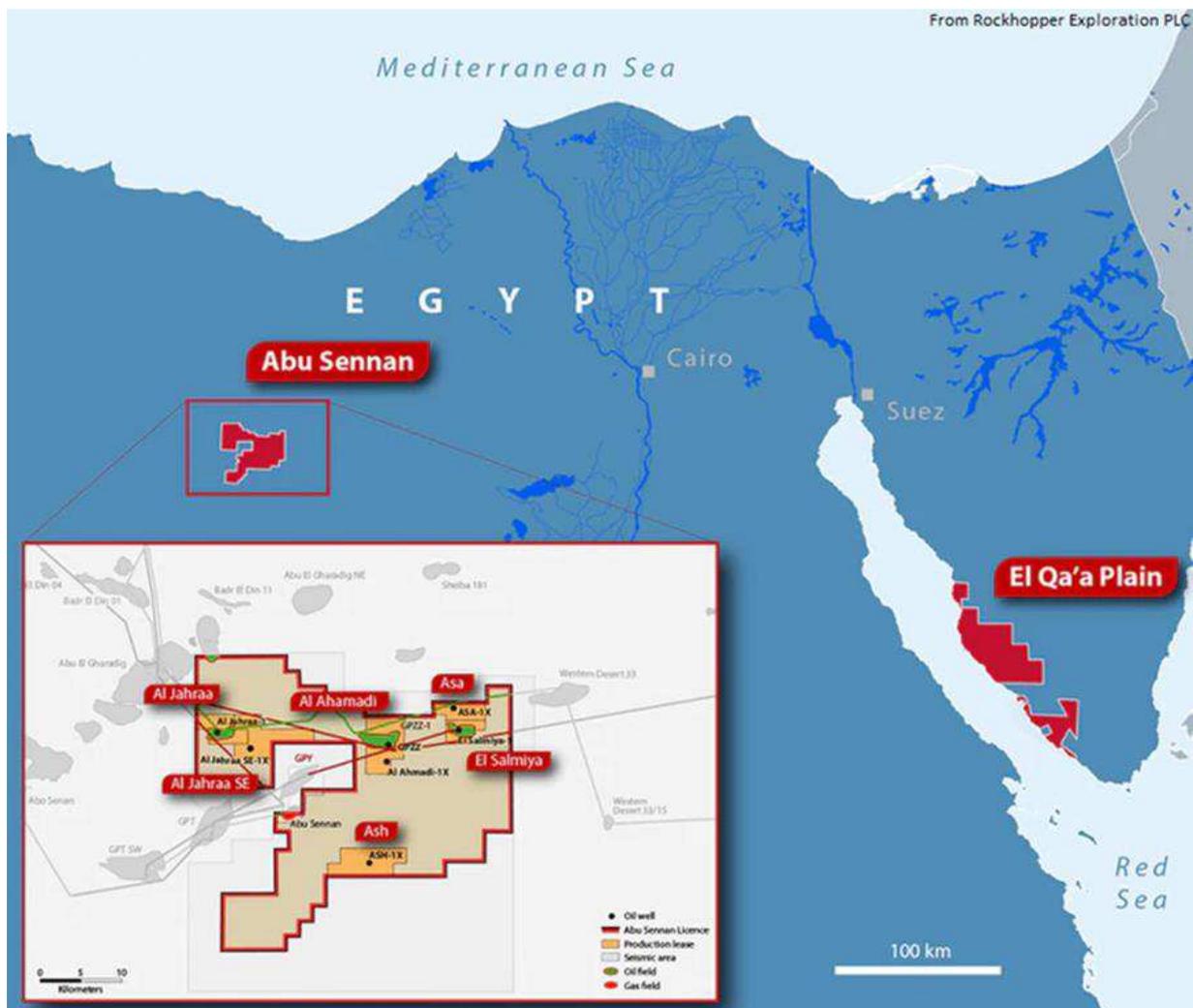
United Oil & Gas has acquired a 22% non-operated interest in the Abu Sennan concession onshore Egypt from Rockhopper Egypt Pty Ltd (Rockhopper) for a total consideration of US\$16.0m. The transaction has an effective date of 1 January 2019.

The Abu Sennan Concession

Rockhopper Egypt has been operational in Egypt since August 2016 when it acquired the Abu Sennan Concession for US\$11.9m. Abu Sennan is located in the Western Desert region of Egypt and comprises seven development concessions with a total of 17 producing wells. Gross production from the licence is currently approximately 5,000 boepd, up from 4,000 boepd at the start of 2019 and an average rate 3,700 boepd over the full year 2018. Following the acquisition of Rockhopper's interest by United, production net to the company's 22% working interest is therefore c.1,100 boepd.

The other partners in Abu Sennan include Kuwait Energy (25% and operator), Global Connect Limited (25%) and Dover Investments Limited (28%).

Location map of the Abu Sennan Concession in Egypt



Source: Rockhopper Exploration

Reserves

The most recently reported reserves at 30 June 2019 indicated that United's working interest 2P reserves were 2.66 mmbob (net entitlement of 1.1 mmbob). This equates to gross reserves across the licence of approximately 12.12 mmbob, although this number does not take into account the potential for reserves added from recent drilling activity in the latter part of 2019 (see later section). The seven production concessions on Abu Sennan are:

- Al Jahraa
- Al Jahraa SE
- ASZ
- Al Ahamadi
- Asa
- Ash
- El Salmiya

The concession also contains a large exploration area measuring 653 km² with a significant prospect and lead inventory of potential drilling targets. Drilling success rates to date have been 80%, reducing future drilling risk exposure considerably.

Gross and net entitlement oil reserves on Abu Sennan

Oil Status	Gross field (mmbbbls)			Net economic entitlement (mmbbbls)		
	1P	2P	3P	1P	2P	3P
Developed	3.1	6.6	8.8	3.1	0.6	0.9
Undeveloped	0.5	4.0	7.1	0.1	0.4	0.6
Total	3.6	10.6	15.9	3.1	1.0	1.5

Source: GCA CPR Executive summary

Gross and net entitlement gas reserves on Abu Sennan*

Gas Status	Gross field (BCF)			Net economic entitlement (BCF)		
	1P	2P	3P	1P	2P	3P
Developed	3.6	7.1	12.2	0.3	0.7	1.2
Undeveloped	0	0.7	2.3	0	0.1	0.2
Total	3.6	7.8	14.5	0.3	0.8	1.4

Source: GCA CPR Executive summary

*converted to boe at a rate of 5,000 mcf of gas per barrel of oil

The transaction terms

United paid a deposit to Rockhopper of US\$0.3m upon the signing of the Sale and Purchase agreement to acquire Rockhopper's 22% interest in Abu Sennan in July 2019. A further payment of US\$15.7m will be payable in cash and consideration shares upon United shareholders approval at a General Meeting to be held 23 December 2019 and upon EGPC and Minister of Petroleum and Mineral Resources of Egypt providing the deed of assignment to the acquisition. Upon completion, the transaction will have an effective date of 1 January 2019.

At the end of December 2018, Rockhopper Egypt reported turnover of over US\$6.1m and gross profit of almost US\$2.4m. The respective numbers for the six months to 30 June 2019 were US\$3.2m and US\$1.2m.

Shares consideration

Rockhopper has agreed to take US\$4.5m of the balance payable of US\$15.7m in United shares. Accordingly, the company will issue to Rockhopper on completion 114.5 million consideration shares at 3.0p per share. This will represent 18.5% of United's enlarged share capital upon admission. We note that for as long as Rockhopper holds 10% or more of the share capital of United, Rockhopper will be entitled to appoint a director to the company's board.

Rockhopper has agreed with United that it will only dispose of any interest in the consideration shares for a period of 12 months from admission in accordance with an orderly market arrangement commencing three months from admission and through the company's broker, unless such disposals are with the prior written consent of the buyer.

BP facility

BP has provided a senior secured prepayment financing structure of up to US\$8.0m to fund the transaction. This has been entered into in relation to United's future oil and gas production and this facility will be repaid over a period of 30 months. United intends to draw down the full amount under the BP facility on completion of the transaction in order to part fund the acquisition.

Placing and subscription proceeds

In order to fund the remaining balance of the consideration, United has conditionally raised approximately £4.8m before expenses (£4.5m net of expenses). At the current exchange rate, the net proceeds of the placing equate to approximately US\$5.9m. This was expedited through the placing of approximately 150.6 million new shares at 3.0p per share with new and existing investors.

Certain investors and two United directors; Graham Martin and David Quirke, have also agreed to subscribe for an aggregate 8.4 million shares at the subscription price which is equal to the placing price. Consequently, United's enlarged share capital will comprise 619.15 million shares upon admission after the company's General Meeting on 23 December 2019.

Use of proceeds

The net proceeds of the placing and the subscription together with the BP facility total approximately US\$13.9m and will be used to fund the cash element of the transaction which equates to \$11.5m. The balance of the funds will be used to cover the costs of the acquisition of approximately US\$0.8m, with the balance of US\$1.6m providing general working capital to the group.

Drilling activity on Abu Sennan in 2019

At the start of the current year, Rockhopper announced its plans to participate in four wells on Abu Sennan of which one is expected to be an exploration well. The results of this ongoing programme are outlined below.

Al Jahraa-7

The Al Jahraa-7 development well was spudded on 25 May 2019 and reached total depth of 3,970m MD (Measured Depth) in the Kharita formation on 23 June 2019. Initial petrophysical analysis indicated pay within several intervals which included:

- Abu Roash-C: Net pay: 7m
- Abu Roash-E: Net pay: 4m
- Upper Bahariya: Net pay: 9m
- Lower Bahariya_1: Net pay: 6m
- Lower Bahariya_2: Net pay: 5m

Well testing operations commenced in August 2019 focusing on the Abu Roash-E and Bahariya reservoirs, the results of which are yet to be announced by the operator at this stage.

Al Jahraa-11

The Al Jahraa-11 in-fill development well reached TD of 4,150m MD on 15 April 2019 in the Kharita formation. Mudlogs and petrophysics indicate the following oil net pay:

- ARC: 7.2m TVD
- ARD: 4.0m TVD
- ARG: 2.5m TVD
- Bahariya: 15m TVD

The well was tested successfully across the Abu Roash-C and G and Bahariya intervals and was completed with a dual string to produce from these three reservoirs. As at June 2019, production from Al Jahraa-11 was approximately 787 bopd gross.

In addition to the oil volumes from Al Jahraa-11, the operator is also evaluating a gas commercialisation solution through bids for the construction of a sales gas pipeline from Al Jahraa to the gas plant at El Salmiya.

Al Jahraa-12 (formerly WI-1)

The third Al Jahraa field development well, Al Jahraa-12, was spudded on 4 August 2019. The well is being drilled as a deviated hole primarily as a water injector into the Abu Roash-C downdip of the existing Al Jahraa-3 well in the water leg. Al Jahraa-12 will also further explore the potential of the Bahariya reservoirs which were both present in the Al Jahraa 7 and 11 wells. The well is anticipated to take around 55 days to drill, test and complete and a result is expected to be announced in due course.

Further drilling commitments

As part of its work programme commitments, the operator also plans to drill the ASH-2 commitment exploration well, news of the timing of which is expected soon.

Wells can be brought on stream quickly

As noted previously, gross field production has increased from approximately 3,800 boepd at the start of 2019 to current levels in excess of 5,000 boepd. This has been driven by the addition of production from Al Jahraa-11 as outlined above. However, we also note that drilling activity completed at the end of 2018 has also contributed to increased output in the current year. In particular, the ASZ-1X exploration well on the Abu Sennan 6 development lease that was spudded in November 2018 made an oil discovery in the Abu Roash-C interval and was brought on production at the end of March 2019 at a gross rate of approximately 150 bopd following government approval on 25 March 2019.

We also note that the current year has benefitted from a full contribution of production from the Al Jahraa-6 and Al Jahraa-10 wells that were put into production towards the end of 2018. As announced at the time, Al Jahraa-10 was brought into production from the Abu Roash C interval at a rate of 130 bopd and Al Jahraa-6 was producing over 550 bopd with a stable water cut of 22% from November 2018.

It should be noted that Al Jahraa-6 was the first commercially productive well in the Bahariya formation within the wider Abu Sennan concession, opening up a new play within the licence and the potential for significant reserves and production upside.

Drilling programme for 2020

We anticipate that the partners in the Abu Sennan Concession will commit to an additional programme to drill a further four wells across the licence in 2020.

At this stage, we estimate that the cost of in-fill development drilling is approximately US\$3.0m - US\$4.0m per well assuming that the deeper reservoirs are not targeted at this stage. As such, we anticipate that a four well programme is likely to be budgeted at US\$12.0m–US\$15.0m gross, implying a net contribution of up to US\$3.3m for United's share of capex. We believe that this can be funded comfortably from United's share of net cash flow Abu Sennan.

PSC terms for Abu Sennan

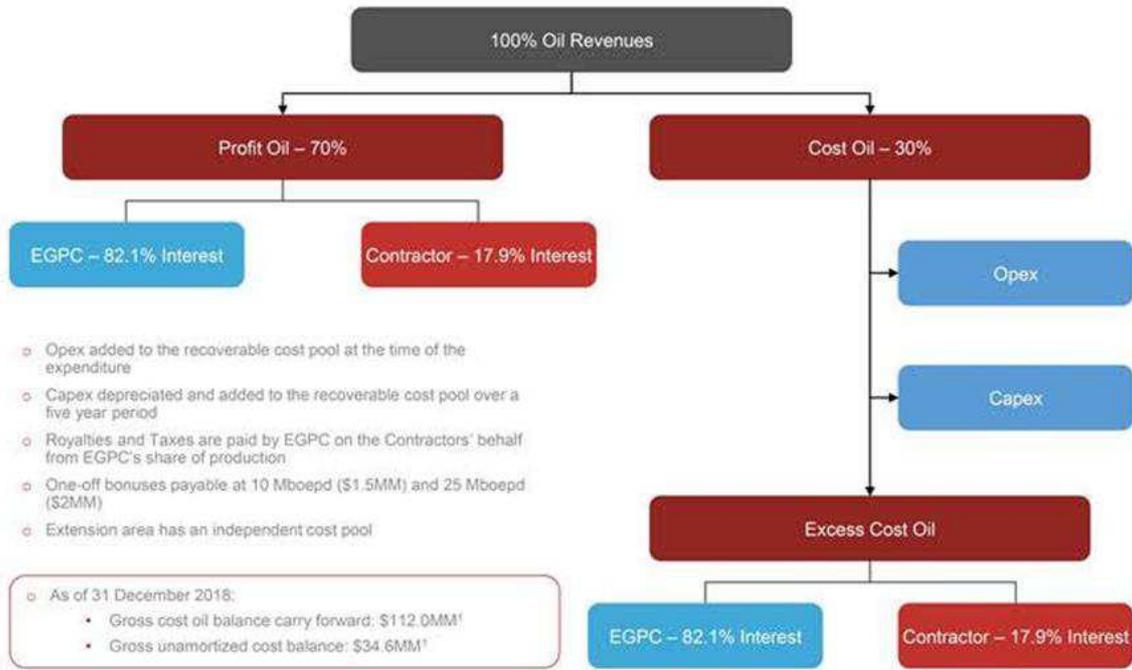
Fiscal terms in Egypt are comparatively tough although the economics of Abu Sennan are enhanced significantly by an historical recoverable cost pool of approximately US\$112m.

Under the terms of the Production Sharing Contract for Abu Sennan, the contractor is entitled to recover its operating expenditure (opex) and capital expenditure (capex) from a cost oil pool representing 30% of total oil revenue. The balance of 70% of revenue is profit oil and is split 82.1% to state oil company EGPC and 17.9% to the contractor. Excess cost oil, where the cost oil pool exceeds the value of costs recovered is also split between EGPC and the contractor along the same 82.1%/17.9% respective interests. With the historical recoverable cost pool, the government take is effectively 57%.

Opex is added to the cost pool at the time of expenditure and capex is depreciated and added to the same pool over a five year period.

All royalties and taxes are paid by EGPC on the contractor's behalf from EGPC's share of production. As part of the PSC terms, one off bonuses are also payable by the contractor when production reaches 10,000 boepd and 25,000 boepd. The respective bonuses payable at these milestones are US\$1.5m and US\$2.5m.

Abu Sennan – PSC fiscal terms summary



Source: Rockhopper Exploration

Valuation of Abu Sennan

We have ascribed an NPV-based risked valuation of United's 22% interest in Abu Sennan of US\$28.5m, representing a substantial uplift on the acquisition price for an established asset.

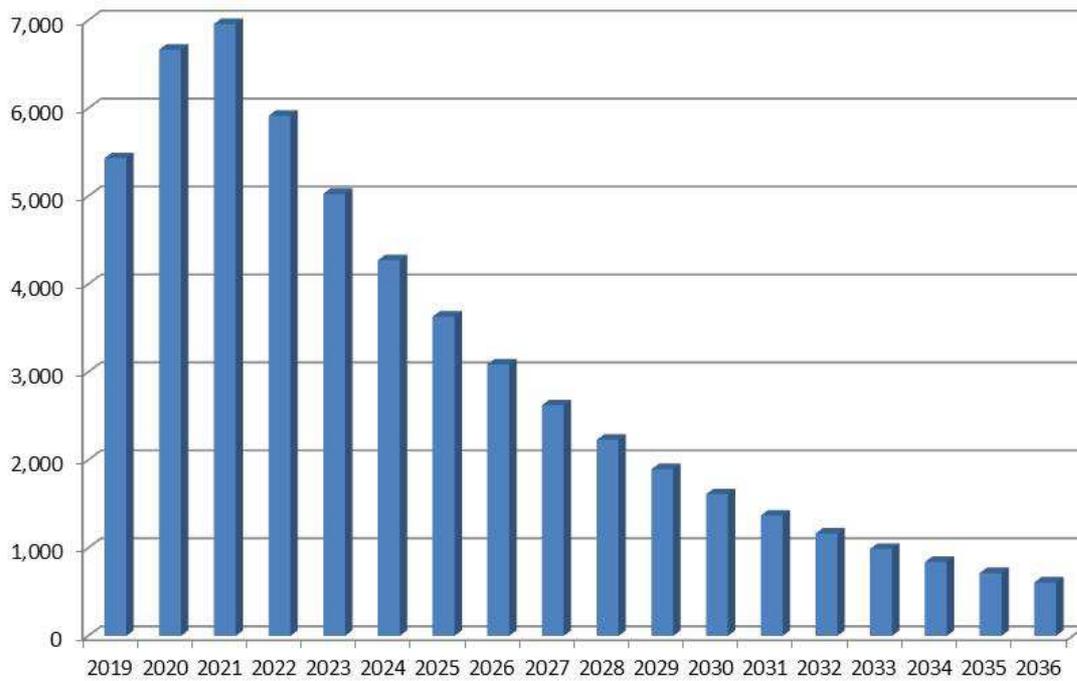
Within our core assumptions, we have factored in average production of approximately 5,000 boepd in the current year; ramping up to a peak of almost 7,200 boepd in 2021 as new output from the 2019 and 2020 drilling programmes of four wells per annum contribute to incremental increases in production. At this stage, we have assumed a 15% per annum decline rate for all new wells drilled on Abu Sennan.

We have assumed that each new well delivers initial production of approximately 500 boepd although we understand that some new wells are capable of volumes in excess of 750 boepd when placed on production. We have not assumed any further drilling activity beyond 2020 as this has yet to be formally scheduled. However, we would anticipate that infill drilling and exploration activity on Abu Sennan is expedited in a continuous fashion based on current high drilling success rates of 80%.

To our production profile is outlined in the chart below, we have applied an oil price of \$60.00 per barrel flat over the productive life of the field. We understand that that the average realised price for production from Abu Sennan was US\$63.10 in H1 2019, representing a modest discount to the Brent benchmark which averaged approximately US\$66.00 per bbl in H1 and has averaged nearly US\$62 per bbl in the current year to the end of November.

As outlined earlier, gross reserves at the end of 2018 were inferred to be 12.12 mmboe across the licence area. We note that this does not take into account the potential for new reserves added from recent and future drilling activity which we believe has the potential to expand the gross reserve base beyond 20 mmboe as new infill development wells and exploration wells in particular bring prospective and contingent resources and 3P reserves into the 2P reserves category.

Abu Sennan gross production profile (boepd)



Source: Optiva estimates

Cost assumptions

We have assumed an average cost per new well of US\$4.0m at the higher end of the range for infill drilling on the licence. As such, United’s share of an annual four well drilling programme is likely to amount to approximately US\$3.5m; an amount that we believe can be funded comfortably from the company’s share of field revenue.

Our assumptions also factor in gross fixed opex of US\$5.0m per annum and a variable cost of US\$3.20 per barrel of production. Consequently, we note that unit opex for Abu Sennan over the decade of production from 2019 is very attractive at between US\$5.00 and US\$10.00 per barrel.

Indicative valuation

After the application of the fiscal terms as outlined previously, we have arrived at an unrisks NPV 10 of US\$32.3m attributable to United's 22% interest in Abu Sennan. It should be noted that this includes the full repayment of the BP prepayment financing of US\$8.0m over the first 30 months of production.

Although we anticipate that the majority of wells drilled on Abu Sennan in 2019 and 2020 will be low risk infill wells, the company is participating in a commitment exploration yet to be scheduled as part of the 2019 drilling programme and we would expect at least a further exploration well to be drilled in 2020. Although drilling success rates on the licence are very high, we believe it prudent to apply a 10% risk factor to account for the potential of a disappointing well result in 2020. As such, our risked valuation for United's 22% interest in the Abu Sennan licence is US\$28.5m.

Cash flow potential to United

We acknowledge that payment from Egyptian government can on occasions be a relatively slow process. However, we understand that the operator is currently receiving payment for invoices submitted to the government in less than 90 days.

We have calculated that United could generate net cash of up to US\$6.4m in 2020. This provides sufficient scope for the repayment of the 2020 instalment of the BP loan facility amounting to US\$3.2m and also provides most of the capital to fund the company's share of drilling costs in Egypt next year.

We expect that cash flow will ramp up further after 2020 to over US\$8m per annum or the next three years as production peaks and the BP facility is repaid by 2022. With the potential for cash flow from the Selva gas field development in Italy to contribute a further c.US\$5m to the company over the same period, United could be a highly cash generative vehicle with the scope to fund its share of major exploration programmes in Jamaica and the UK from internally generated cash flow. We also note that United is expected to receive the first tranche of funds from the sale of its UK offshore Crown asset to Anasuria Hibiscus UK Limited, announced in July 2019. In this regard, we expect that United will receive 95% of US\$1.0m in December 2019 with a further 95% of US\$3.0m in December 2020 providing further non-dilutive funding for the company over the next twelve months.

Company valuation summary

Outlined in the table below is our sum of the parts valuation for United. Our indicative valuations have been generated in a combination of US dollars (Euros in the case of Podere Gallina in Italy) and converted into a Sterling equivalent at an average exchange rate of US\$1.31: £1.00. This current rate reflects the exchange rate at the time of which United completed the placing and as such we believe it is particularly representative of the US dollar funds available to the company.

Within our valuation, we have attributed our initial valuation for the company's interest in Abu Sennan in addition to valuations for the company's core assets in Italy and the UK. We note that the repayment of the US\$8.0m prepayment financing outlined previously is included in our valuation of Abu Sennan. At a valuation of US\$29.1m for the company's Egyptian assets, it is clear that this project is transformative for United, representing the company's largest and most advanced asset in the portfolio by a considerable margin.

Of the company's exploration portfolio, we have included a risked assessment of United's interest in Jamaica which represents United's highest potential impact exploration asset. Presently, we view the recent provisional award of interests in six blocks in the UKCS and the company's option to acquire a 20% farm-in interest in Block 20 in Benin as longer term upside and we will ascribe initial valuation to these assets upon a more definitive demonstration of prospectivity.

Our aggregate valuation table below is based on 619.2 million shares in issue following the company's General Meeting on 23 December 2019. Our fully diluted calculation factors in 82.2 million warrants at an average exercise price of 4.0p per share and a further 11.1 million options exercisable at an average price of 5.0p per share.

United Oil & Gas valuation summary

Licence	Country	Status	Valuation	Valuation	Undiluted	Diluted
			US\$m	£m	p	p
Abu Sennan	Egypt	Production/Development	29.1	22.2	3.6	3.1
P1918 (Colter)	UK	Appraisal/Development	10.7	8.2	1.3	1.2
P2366 (Crown)*	UK	Appraisal	4.8	3.6	0.6	0.5
Podere Gallina (Selva field)	Italy	Development	6.4	4.9	0.8	0.7
Podere Gallina	Italy	Contingent resources	1.6	1.2	0.2	0.2
Podere Gallina	Italy	Prospective resources	2.3	1.8	0.3	0.2
PL090 (Waddock Cross)	UK	Appraisal/Development	5.0	3.8	0.6	0.5
PL090 (Broadmayne)	UK	Exploration	3.7	2.8	0.5	0.4
Walton-Morant	Jamaica	Exploration	13.7	10.5	1.7	1.5
Block B	Benin	Exploration	0.0	0.0	0.0	0.0
UKCS 31st Licensing Round	UK	Exploration	0.0	0.0	0.0	0.0
Overheads		Corporate	-1.0	-0.8	-0.1	-0.1
Cash (debt)		Corporate	2.3	1.8	0.3	0.2
Options and warrants		Corporate	5.0	3.8	0.0	0.5
Total			83.7	63.9	9.7	9.0

Source: Optiva estimates

*Heads of Terms agreement signed to sell Crown to Anasuria Hibiscus UK Limited for US\$5m gross

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