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United Oil & Gas Plc*

24 January 2018

BUY

Stock Data

Share Price:	5.625p
Market cap.:	£13.1m
Shares in issue:	232.2m
Fully diluted equity:	269.4m

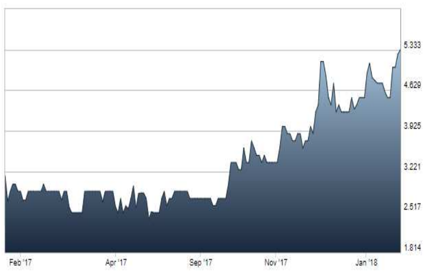
Company Profile

Sector:	Oil & Gas
Exchange:	LSE Standard List
Ticker:	UOG

Activities

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

Performance Data



Directors

Brian Larkin:	Chief Executive Officer
Jonathan Leather:	Chief Operating Officer
Alberto Cattaruzza:	Non-Exec. Director

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*Optiva Securities acts as broker to United Oil & Gas Plc

Farm-in option agreed for the Acle prospect

United has agreed an option to farm-in to Block 49/29c (Licence P2264) which is located in the UK Southern North Sea (SNS). The licence contains the exciting Acle prospect which could contain gross recoverable volumes of up to 160 BCF of gas. The current partners on the licence are private entities, Swift Exploration Limited and Stelinmatvic Industries Ltd which currently hold 50% each. With United seeking a net interest of 24% in the block, the company's option would be executable on the basis that further partners are brought in and a drilling commitment is confirmed.

Block 49/29c, located in the UK Southern North Sea, contains the exciting Acle prospect which has attributed gross recoverable resources of 50 BCF-160 BCF with a base case estimate of 100 BCF. Acle is located immediately to the west of the North Davy field where although production has now ceased, originally contained 35 BCF of recoverable gas and produced at rates over 43,000 mcfpd at its peak in 2002.

Under the terms of the option agreement, United are seeking to farm-in for a 24% net interest, paying 30% of the first exploration well on the prospect. Such a well is currently expected to cost up to US$10m (US$3m net to United). It should be noted that exercise of United's option is contingent upon additional farm-in partners on the block and a drilling commitment for the maiden exploration well.

Acle is a clear 2.5 km^2 four-way dip closure with further fault-bounded upside. Like most fields in the SNS, the reservoir is located in the Permian Rotliegendes formation and the Acle structure is located in close proximity to several producing gas fields including Gawain, Davy, Sean and Boyle in addition to numerous depleted fields including Orwell and the Tristan group of fields. With several options available for exporting gas from a discovery, the likely option would be to tie in future production through the Sean fields located to the north of Acle.

Acle is a low risk exploration prospect as a function of its four-way dip closure in a proven hydrocarbon fairway. As such, it has been ascribed a 60% chance of drilling success. Although two dry holes have been drilled nearby, United can demonstrate that both of these were drilled in off-structure locations.

Assuming the base case recoverable volume of 100 BCF of gas from Acle, which is comparable with surrounding fields, we can ascribe an indicative unrisked valuation of approximately US$22.1m net to United's interest in the licence. This falls comfortably within the company's low to high range of US$9.8m–US$48.0m (base case: US$26m) for United's 24% interest. After the application of a CoS of 60%, our risked assessment ascribes an initial valuation of US$13.3m to United's potential interest at this early stage. This is equivalent to 3.7p per share on a fully diluted basis.

United has made exceptional progress over the last twelve months assembling an impressive and balanced portfolio of development, appraisal and high impact exploration assets. Although the introduction of Acle to the company's remit is contingent on the exercise of an option at this stage, the successful execution of the proposed deal has the potential to increase United's fully diluted valuation to 15.4p per share. It is very important to note that we have not yet included any potential upside for United's Jamaican assets which, although early stage, have the potential to be transformative for the company's valuation.

Option to farm-in to Block 49/29c (Acle)

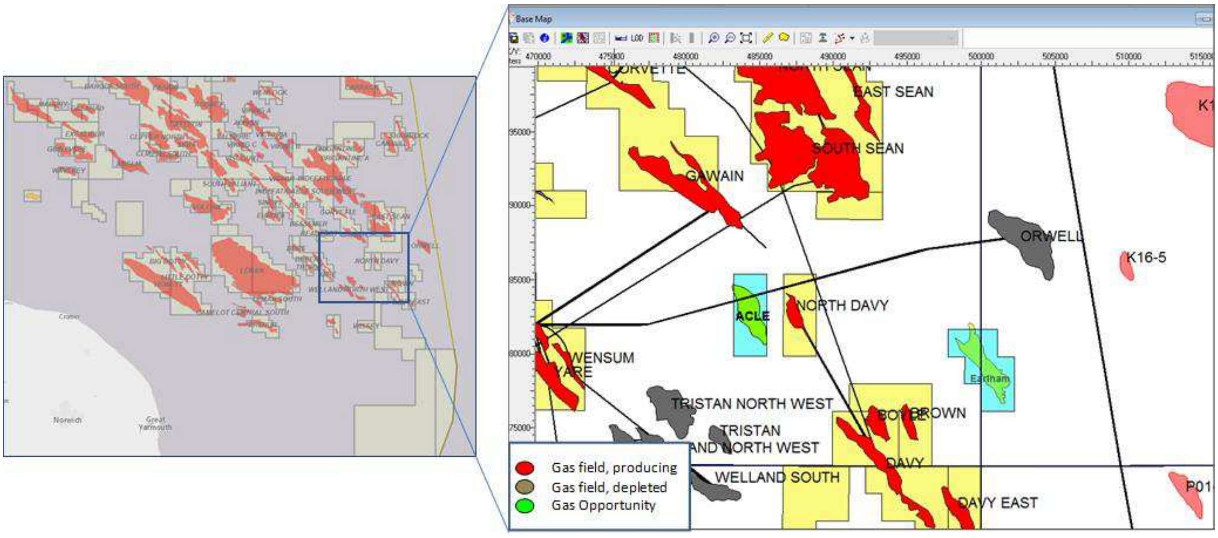
On 24 January 2018, United Oil & Gas announced that it signed an option agreement to farm-in to Block 49/29c (Licence P2264), located in the UK Southern North Sea (SNS). This licence contains the Acle prospect which has a P90-P10 recoverable volume range of 50 BCF -160 BCF of gas and a base case estimate of 100 BCF which is comparable with surrounding fields in the area.

The current equity holders of Block 49/29c are private companies; Swift Exploration Limited and Stelinmatvic Industries Ltd which both hold a 50% stake each in the licence and are seeking farm-in partners. On this understanding, United is seeking to farm-in for a 24% interest (12% from each existing partner), upon which the company would pay 30% of the costs of an exploration well on the Acle prospect.

In addition, United will pay £20,000 in cash to each partner on signing of the farm-in agreement. The option agreement is exercisable upon a firm commitment being made to drill the well and is valid until expiry of the licence, which will be no earlier than 30 June 2018.

The company estimates that an exploration well would cost in the region of US$8m-US$10m. It is important to note that United's option would only be executable upon the admission of additional partners to the licence and a drilling commitment for the Acle prospect being confirmed.

Location of the Acle prospect in the UK SNS



Source: Company

The Acle prospect

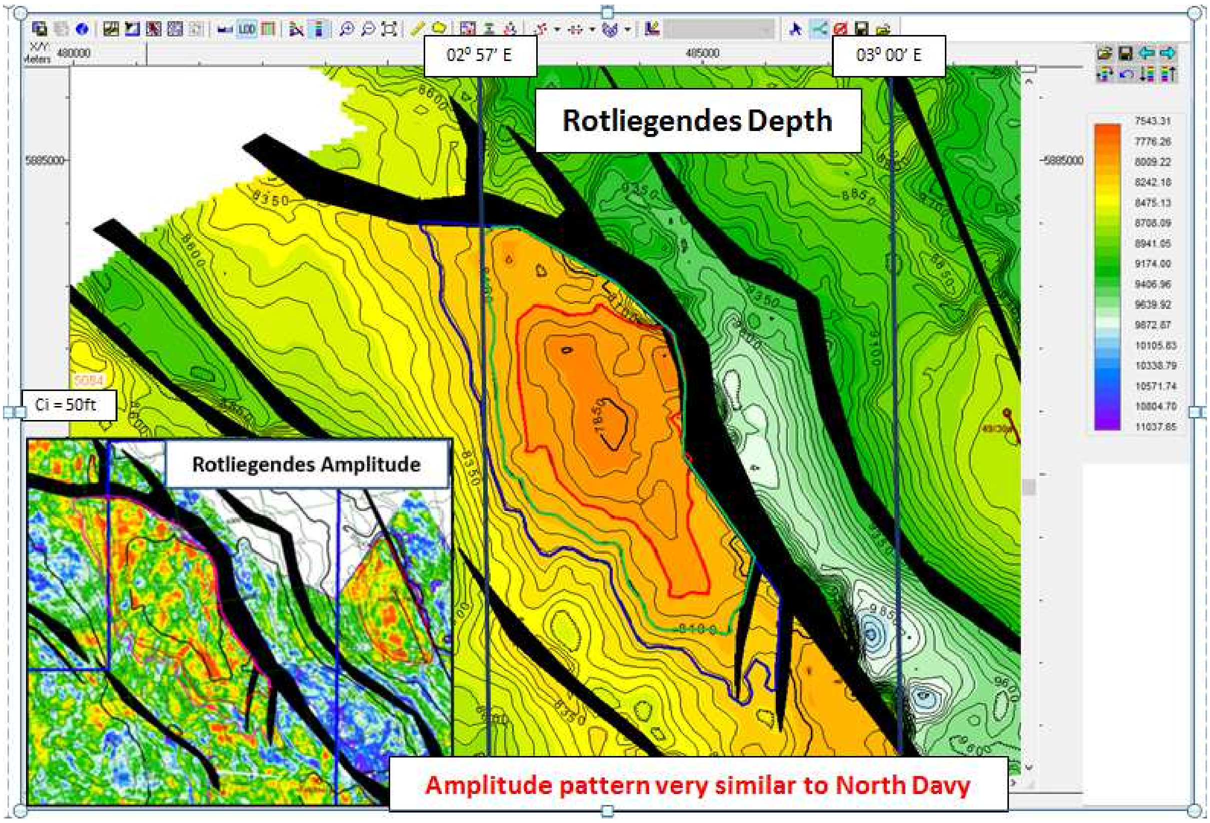
The Acle prospect outlined on the map above and in greater detail on the amplitude map below is a clear four-way dip closure structure with an areal coverage of approximately 2.5 km^2. As with most of the producing and depleted gas fields located in this region of the UKCS, the reservoir that would be targeted by an exploration well is the Permian Rotliegendes sandstone formation that has been so prolific for gas discoveries in particular in this area to date.

United acknowledges that Acle is an exploration prospect albeit a low risk target. As such, the company has ascribed a high chance of success (CoS) for drilling of 60% to the prospect.

United has calculated the P90-P10 range of recoverable volumes of gas to be 50 BCF-160 BCF with a base case estimate of 100 BCF (16.7 mmboe). This is consistent with neighbouring fields including Boyle, Davy and Gawain which all produced significant volumes of gas in the 1990s and early 2000s.

The map below depicts a four-way dip closed structure of the Acle prospect in addition to an amplitude pattern similar to the North Davy field immediately to the east of Acle.

Amplitude map of the Acle prospect

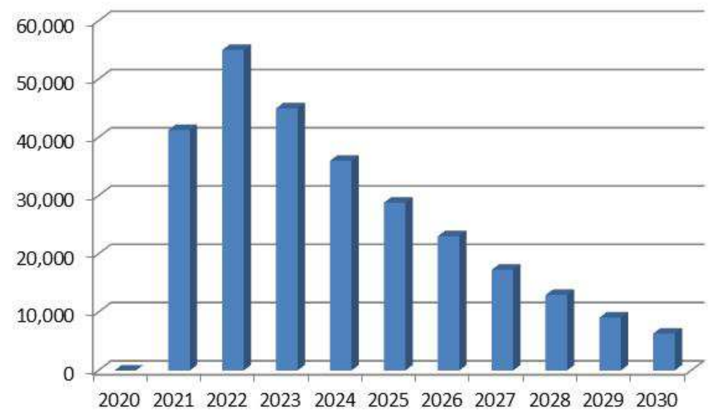


Source: Company

Acle – an indicative valuation

For the purposes of establishing an indicative valuation for United's expected interest, we have valued Acle on the gross base case resources scenario of approximately 100 BCF of gas. To this, we have applied a range of variables to a notional development of a field of this size in order to assess the potential value of a successful development. Within our calculations, we have assumed the following production profile from a four well development. We expect a relatively short productive life although at its peak, we understand that gross gas output could reach 55 mmcfpd (9.2 mboepd).

Acle production profile (mcfpd of gas)



Source: United, Optiva estimates

Development project assumptions

Within our estimates, we have assumed an exploration well with a gross cost of US$10m at the higher end of the range of expectations. Assuming the farm-in proceeds as expected, United will pay 30% (US$3m) of the cost of this maiden well. At present, we anticipate that this well will be drilled in 2019.

Assuming that the exploration well is successful and yields sufficient reserves of gas to justify a development project, United envisages a notional development programme consisting of a four well monotower tie-back to the Sean field to the north of Acle with a gross development cost of approximately US$72m with the majority of this expenditure incurred in 2020. An example of a monotower development platform (L13-Fl-1 in the Dutch North Sea) is illustrated below.

It is worth noting that development options involving a sub-sea tie-back to Sean will also be considered as these would eliminate the need for a platform. Such a solution could significantly lower the development costs indicated in this report.

A monotower platform

Source: HSH Offshore

Gas price and cost projections

We have factored in flat gas price of US$6.50 over the life of the field, which is comfortably below the current spot spice equivalent of approximately US$6.70. For operating cost assumptions, we have also factored in fixed opex of US$3.0m per annum coupled with variable opex of US$2.00 per mcf of gas produced.

After applying the appropriate levels of taxation including ring fence corporation tax of 30% and a supplementary charge of 10%, to profits from production, we arrive at an indicative gross NPV for Acle of US$93.6m. After factoring in United's 24% interest and a risk factor relating to the ascribed CoS of 60% to this unrisked NPV, we arrive at a technically risked NPV of US$13.3m net to United's interest.

On a fully diluted basis, this is equivalent to 3.7p per share. This represents a very significant uplift to the current share price although it is important to note at this stage that United is not currently funded for its share of longer term development costs should the company elect to proceed to that stage.

Company valuation summary

Our valuation assumptions based on United's fully diluted equity which consists of 232.2 million shares and a further 37.3 million warrants priced at 2.5p each are outlined in the table below. This summary takes no account of potential future fund raisings and subsequent dilution or asset farm-downs or disposals. Considerable additional detail regarding the assets not discussed directly in this note can be accessed in previous research notes dated 30 May 2017 and 27 November 2017 and 17 January 2018.

United Oil & Gas valuation summary

Item	Country	Status	Valuation US$m	Valuation £m	Per share p
PL090 (Waddock Cross field)	UK	Appraisal/Development	3.5	2.6	1.0
PL090 exploration upside (Broadmayne)	UK	Exploration	3.4	2.5	0.9
Podere Gallina (Selva field)	Italy	Development	5.9	4.4	1.6
Podere Gallina (East Selva)	Italy	Exploration	1.4	1.1	0.4
Block 49/29c (P2264) (Acle prospect)	*UK*	*Exploration*	*13.3*	*9.9*	*3.7*
P1918 (Colter)	UK	Appraisal	23.4	17.5	6.5
Walton-Morant licence	Jamaica	Exploration	0.0	0.0	0.0
Overheads		Corporate	-0.5	-0.4	-0.1
Cash (debt)		Corporate	4.0	3.0	1.1
Warrants		Corporate	1.2	0.9	0.3
Upside total*			**55.7**	**41.5**	**15.4**
Core valuation (ex. Acle)			**42.4**	**31.6**	**11.7**

Source: Optiva Securities estimates

*Provisionally includes Acle assuming that the option to farm-in is exercised

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