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# United Oil & Gas Plc*

**17 January 2018**

## Farm-in agreement for the Colter prospect

**United has agreed to farm-in to 20% of three UK licences located offshore southern England. Of particular interest is licence P1918 which contains the Colter prospect, situated adjacent to the Wytch Farm oil field, which has produced over 450 mmbbls of oil to date. The operator of P1918, Corallian Energy, plans to drill an appraisal well on Colter in Q2 2018 targeting estimated gross unrisked P10 resources in excess of 30 mmbbls.**

Private UK E&P company, Corallian Energy has agreed to farm down an initial 10% interest in three southern UK oil and assets (P1918, PEDL330 and PEDL345) to United in return for United committing to pay 13.33% of the costs of an appraisal well on Colter. United has an option to farm-in to a further 10% on the same terms ahead of a 31 March 2018 deadline. This would provide the company with an ultimate 20% stake in return for a 26.67% paying interest in the first appraisal well.

Corallian plans to drill an appraisal well on Colter in Q2 2018, updip of the original discovery well, drilled by BP in 1986, in order to assess the full potential of Colter. The well is planned to be drilled from an offshore jack-up rig given the shallow water depths. We anticipate that the well will cost approximately US$9.4m (c.US$2.5m net to United) and all costs subsequent to the well will be apportioned on a pro rata basis.

United ascribes a P90-P10 range of 8.0 mmbbls-31.0 mmbbls with a mean base case of 17.5 mmbbls which we understand is below the operator's estimate. Until the company completes its technical analysis, our calculation will be based on United's more conservative assumptions.

Assuming that the forthcoming appraisal well on Colter is successful, we have ascribed an indicative NPV for United's 20% interest of US$23.4m. This valuation is based on a long term flat oil price assumption of US$65 per barrel over the life of the field.

At this relatively early stage, a development of Colter, which we expect would likely consist of two extended reach development wells and a water injector tied into Wytch Farm infrastructure, subject to agreement with the operator, is unfunded. However, we believe that in the event of a successful appraisal well and confirmation of significant reserves, United would examine the opportunities to farm down its interest or exit at the highest point on the value curve.

In Italy, flow testing of the Podere Maiar-1 well on the Selva gas field has commenced and results are expected within the next few days. Assuming a successful test, United has only a modest funding commitment for Selva over the next two years prior to the expected commencement of production. As such, we are comfortable increasing our valuation for United's 20% interest in Selva from US$4.0m to US$5.9m.

**The addition of Colter to United's portfolio and the increase in the value of the company's interest in Selva enables us to establish a new fully diluted valuation for United of 11.7p per share, up from 4.8p in May last year when the company completed its RTO of Senterra Energy. It should be noted that United possesses significant unrisked upside within its existing European asset portfolio. In addition, at this comparatively early stage we have not factored in any value from United's collaboration with Tullow in Jamaica, which in the event of exploration success, has the potential to be transformative for United's valuation. With a solid stream of news flow in the offing we feel confident that the shares will be re-rated over the next six months.**

## BUY

### Stock Data

| | |
|---|---|
| Share Price: | 4.9p |
| Market cap.: | £11.4m |
| 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 |

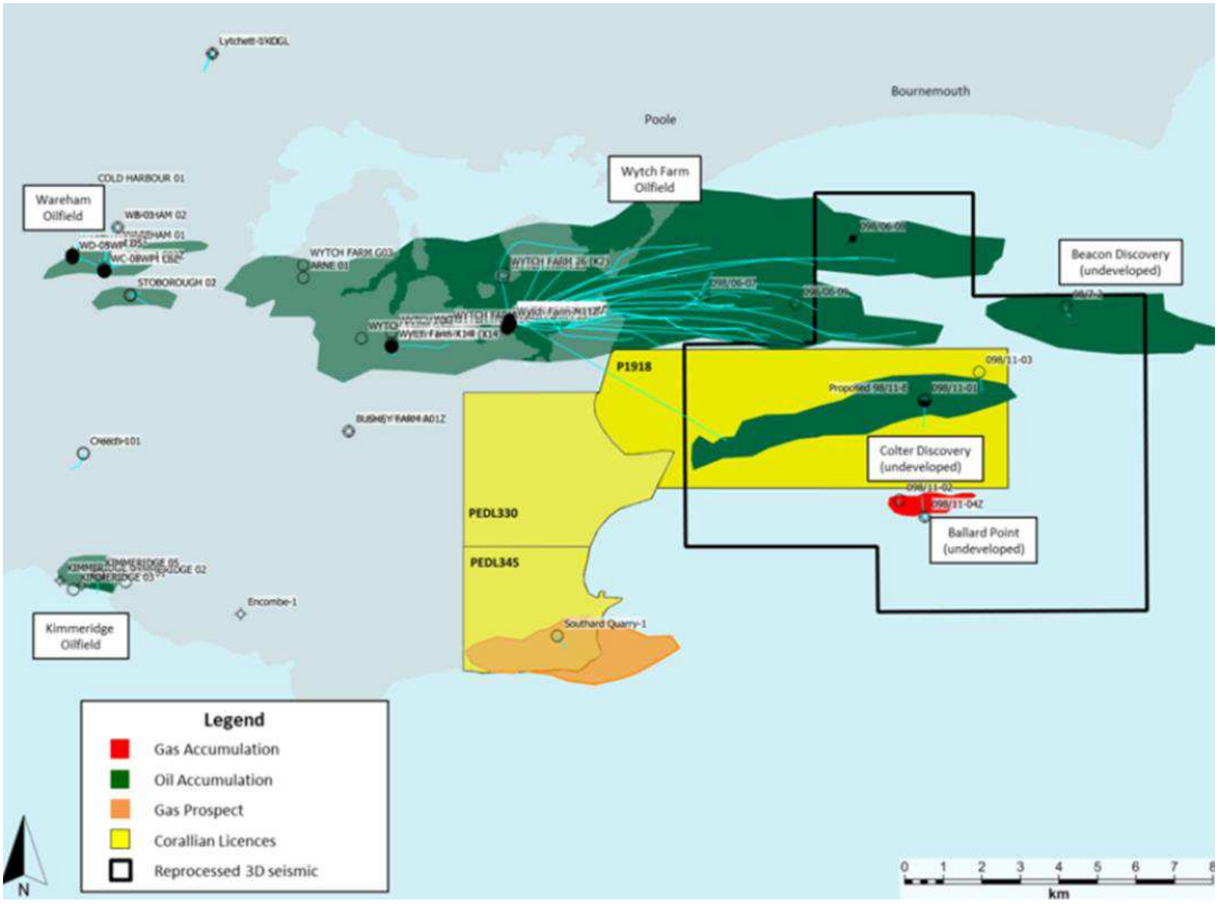
*Optiva Securities acts as broker to United Oil & Gas Plc

# Acquisition of interest in southern UK licences

On 16 January 2018, United Oil & Gas announced that it had agreed a farm-in deal to acquire an initial 10% interest in three UK licences offshore southern UK from Corallian Energy Limited, a private oil and gas company with a portfolio of five licences in the UK onshore and offshore sectors. The licences; P1918, PEDL330 and PEDL345, as outlined on the map below, are jointly held by Corallian (currently 60% and operator) and Corfe Energy Limited with a 40% interest in each licence.

Of primary interest to United is the Colter appraisal project on P1918 which is located adjacent to the large Wytch Farm oilfield in the south of England. Wytch Farm has been a prolific producer since discovery by British Gas Corporation in 1973 and has produced over 450 mmbbls of oil with peak production reaching 110,000 in 1997 under the operatorship of BP.

**Location of the undeveloped Colter prospect on licence P1918 (southern UK)**




Source: Corallian Energy Limited

**The transaction terms**

United has agreed to acquire an initial 10% interest in the licence group in return for paying 13.33% of the costs of an initial appraisal well on Colter. This well is currently scheduled to spud in in Q2 2018. United also has the option to acquire an additional 10% interest in the acreage before 31 March 2018 under the same terms as the acquisition of the first tranche. This implies that United's ultimate equity position would be a 20% interest paying 26.67% of the costs of the first appraisal will. All costs subsequent to this would be incurred on a pro rata basis under the terms of the farm-in agreement.

# The Colter prospect

The undeveloped Colter discovery is located offshore immediately southeast of the Wytch Farm oil field. BP drilled the 98/11-3 discovery well on the Colter prospect in 1986 and recovered a modest amount of 41.9° API oil from a 10.5 metre oil column within the Sherwood Sandstone horizon, the same formation as that which is productive in the Wytch Farm field.

Although Colter was not developed at the time, more recent seismic technology has been employed to merge and reprocess two 3D seismic data sets and enabled the identification of over 100 metres of mapped vertical relief up-dip of the original discovery well.

Corallian plans to drill an appraisal well on Colter in Q2 2018, updip of the original discovery well in order to assess the full potential of the Colter prospect. The well is planned to be drilled from an offshore jack-up rig given the shallow water depths. However, we expect that full development upon a successful result is most likely to be through the existing Wytch Farm facilities located onshore, subject to agreement with the field's operator.

**Initial cost exposure to United**

We anticipate that the gross cost of an appraisal well on Colter will be approximately £7.0m (c.£1.9m net to United) including expenses relating to the appropriate permitting although on the assumption of a successful result.

As part of the farm-out deal, United and Corallian have also established an Area of Mutual Interest (AMI) for the area, enabling the partnership to identify and target further opportunities within the same play.

## Resource estimates

At present, the primary Colter structure being targeted is complex and not particularly well imaged on the current seismic data. As such, United has ascribed a greater uncertainty in the Gross Rock Volume (GRV) range at this stage to that of the operator, implying a P90-P10 recoverable range of 8.0 mmbbls to 31 mmbbls and a mean base case of 17.5 mmbbls. We anticipate that United will be able to firm up its internal estimates as it conducts further technical analysis over the next three months.

United has ascribed an associated NPV range of US$13m-US$79m to Colter with a mean estimate of approximately US$40m net to the company. Our NPV assumptions concur with this based on the application of a number of conservative dynamics coupled with cost estimates for a notional development of the prospect.

**Technical aspects and risks**

At the time of discovery, the 98/11-3 discovery well flowed at low rates during test, recovering 8.5 barrels of oil and 100 barrels of water. Subsequent analysis of the test by independent consultants suggested that the low hydrocarbon recovery rates were a consequence of a combination of reservoir damage, poorer quality reservoir at the top of the Sherwood formation and water being the mobile phase within the transition zone when the zone was encountered.

3D seismic data over the crest of the Colter structure is poor quality and the relatively complex structure combined with faulting makes interpretation difficult. However, United notes that there are clear indications from the data of an area updip from the 98/11-3 well which has not been tested to date.

**Further technical work underway**

In our view, an appraisal well in this location does carry an appreciable degree of risk that it is a separate compartment across a fault boundary and that the area of interest updip from well 98/11-3 is smaller than currently estimated from existing mapping.

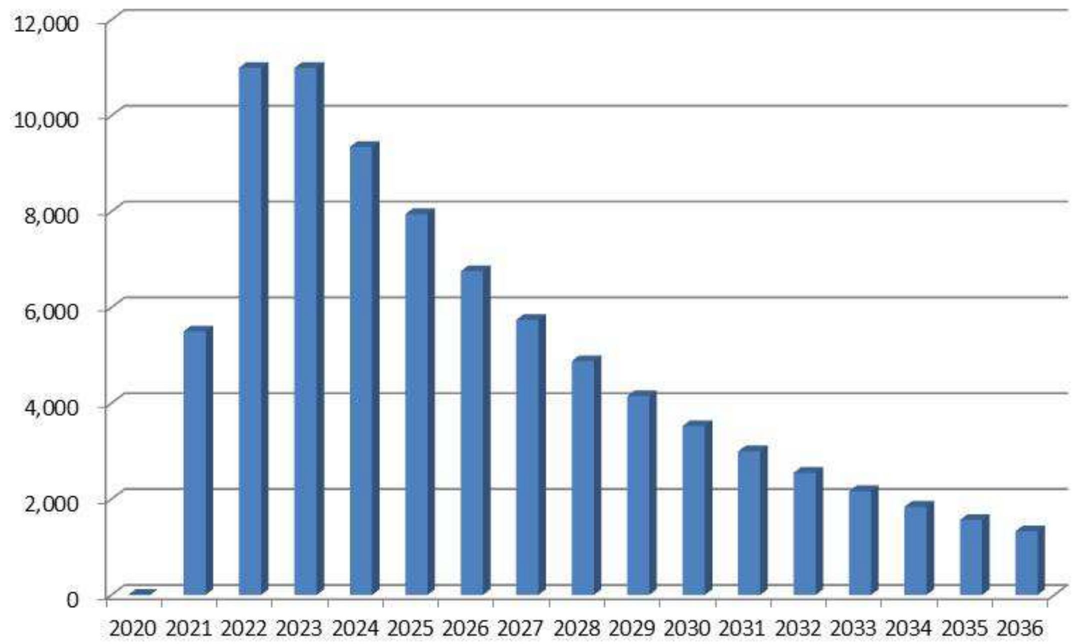
However, further seismic reprocessing is underway and we expect that the results of this, expected to be available at the end of January 2018, will increase United's understanding and confidence in the prospect and mitigate a degree of the associated risk. At present, the well has been ascribed a 58% chance of success (CoS) which we have applied to our internal assumptions.

# Colter – indicative valuation

For the purposes of establishing an indicative valuation for United's expected interest, we have value Colter on the gross base case resources scenario of approximately 17.5 mmbbls until further technical analysis of the prospect is completed.

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 appraisal project to United. Within our calculations, we have assumed the following production profile from a full two well development.

**Colter production profile (bopd)**




Source: United, Optiva estimates

## Development cost assumptions

Within our estimates, we have assumed the successful completion and testing of an appraisal well of US$10.4m gross (United: 26.67% for 20.00% equity under the farm-in terms) in 2018. Our assumptions also factor in a two well development consisting of two extended reach development wells of the type producing oil at Wytch Farm, a water injector and a processing tie-in again at Wytch Farm. This portion of the development is expected to cost approximately US$137.4m in total with the bulk of the expenditure incurred between 2019 and 2021. This would be subject to agreement with the field operator.

For operating cost assumptions, we have factored in fixed opex of US$2.7m per annum inflated by 5% p.a. coupled with variable opex of US$10 per barrel of oil produced.

Similar to our assumptions regarding the potential value of United's interest in Waddock Cross, located to the northwest of P1918, we have factored in a long term oil price of US$65 per barrel from 2021, when production commences, flat over the life of the field.

After applying the appropriate levels of taxation to profits from production, we arrive at an indicative NPV for Colter of US$40m for United's 20% interest. If we apply the CoS risk factor of 58.5% to this unrisked NPV, we arrive at a technically risked NPV of US$23.4m net to United's interest.

On a fully diluted basis, this is equivalent to 6.5p 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.

# Other United assets

## Selva valuation upside with testing underway

As outlined in several announcements in December 2017, the Podere Maiar well on the Selva field in Italy in which United holds a 20% interest, has been successfully drilled and cased, perforated and completed for production. Flow testing of two zones with combined net pay of 41 metres of high quality reservoir with porosities averaging over 28% commenced on 12 January 2018 and results are expected shortly.

We believe that the raft of positive news has de-risked Selva to a large extent. In particular, United has completed the larger proportion of its expenditure with regards to the Podere Maiar well in which the company contributed 40% of the drilling costs in return for an ongoing 20% working interest. With only modest expenditure now required to complete testing and establish connection to the pipeline, we are in a position to increase our valuation of United's interest in Selva from approximately US$4.0m to US$5.9m. (Note that our assumptions factor in the commencement of production in 2020 to allow sufficient time for the operator to completed all the necessary permitting required for production to start). This has increased our fully diluted valuation of the company's interest in Selva from approximately 1.1p to 1.6p per share.

The aggregate impact of our assessment of Colter and our uplift for Selva is outlined in the next section which details our indicative valuation of the company.

# 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.

Given the early stage nature of United's collaboration with Tullow Oil in Jamaica (see Optiva's research note from 27 November 2017), we believe that ascribing a valuation to United's interest in the Walton-Morant licence would largely reflect guesswork. However, early stage work indicates that a notional 200 mmbbls development in this offshore region of Jamaica could have a gross NPV in excess of US$600m. It is important to note that indicative NPVs should not be examined on a standalone basis given that exploration success will de-risk future drilling significantly and has the potential to open up a new multi-billion barrel offshore play in Jamaica.

With United's current share price now covered more than two times by our conservative valuations of United's projects in the UK and Italy, we believe that the company's exposure to Jamaica represents very exciting long term upside.

**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 |
| P1918 (Colter) | UK | Appraisal | 23.4 | 17.5 | 6.5 |
| Walton-Morant licence (Jamaica) | 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 |
| **Total** | | | **42.4** | **31.6** | **11.7** |

Source: Optiva Securities estimates

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