

Upland Resources

Oil & Gas

Speculative Buy, 1.37p, Market Cap. £2.93m*

Upland Resources (Upland) is a relatively new oil and gas exploration and production company that is seeking to build a portfolio of upstream assets. It listed on the main market in October 2015 raising £1.3m (gross) to take advantage of the management's team's knowledge and experience together with the buying opportunities that the current low oil price has provided. It secured its first UK onshore asset with PEDL 299 including Block SK46c and the Hardstoft Field where it is partnered with INEOS and Europa Oil & Gas. Hardstoft is seen as an attractive low risk, low cost conventional field rejuvenation project by the company with it holding 25% of PEDL 299. It is now acquiring a 10% working interest in PEDLs 180 and 182 which includes the Wressle Oil Field where production is due to start early 2017. We would anticipate ongoing newsflow in respect of its activities however given its limited operating history Upland represents a speculative investment opportunity and hence is not without risk. On 24 November 2016, Upland announced it had raised £2.2m (gross) in a conditional placing at 1.3p. All the Directors are participating for £842k consideration. The proceeds will be used to fund the £1.3m cash consideration (*total amount payable £1.6m with £300k in new shares*) of the Wressle farm-in through a conditional agreement with Europa Oil & Gas (*subject to OGA consent amongst others*), together with Upland's share of capital costs relating to PEDLs 299, 180 and 182, on new ventures and ongoing costs. There is a further contingent consideration of £250k in new shares to Europa on substantial commercial production from the contingent and prospective resources. Application will be made for the placing shares to be admitted to listing on the Official List and it is expected that dealings in these new shares will commence on 1 December 2016 on the Main Market.

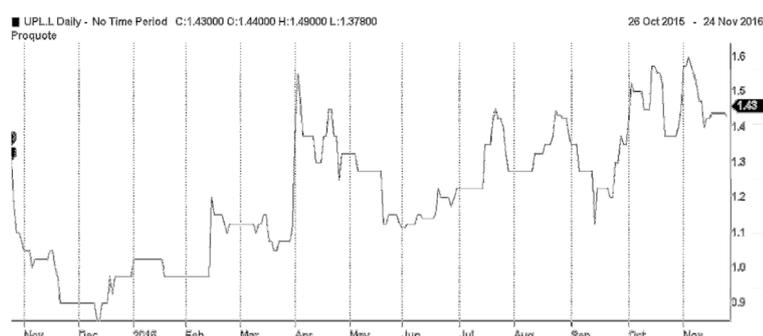
Key Strengths

- Experienced, and well connected management team in place whose interests are aligned with shareholders with a 38.4% holding (pre-placing) and having low corporate overheads.
- Goal is to build a balanced portfolio of carefully selected assets with a programme to de-risk, add value and then either farm down or drill.
- Secured first asset, onshore UK in the East Midlands, with partners INEOS & Europa in PEDL 299. Now acquiring a 10% working interest in PEDLs 180 and 182 which includes the Wressle Oil Field, probably the nearest-term new onshore UK production opportunity.

Key Weaknesses

- No guarantees of commercial or economic success with strategy and sourcing of new assets with Mineral Reserves and Resource estimates also subject to uncertainties in the underlying assumptions which may prove inaccurate and limited data coverage.
- Exploration, development and production activities are high risk undertakings and subject to factors including geology, approvals, legal and/or regulatory timing issues, environmental, social/community, operational/technical facets and partner relationships.
- Corporate risk with success depending on skilled management and retention of technical staff and consultants etc. and dilutive impact of fundraise.

** Note commodity prices both a potential strength and a weakness.



Shares in issue Pre*	213,937,861
Post placing	383,168,631
Official List Ticker	UPL
52 week high/low (p)	1.694p/0.814p
Price spread (p)	1.30p/1.44p
NMS	100,000
Analyst	Trisha Reay
Date	24 November

Year end 30 June	Operating Loss £	Loss for Year £	Loss per share (p)
2015A	(221,069)	(221,069)	(0.003)
2016A	(420,566)	(420,556)	(0.002)

Research Disclosures - Important Notice – Please see pages 5 to 6.

Company Backdrop and Strategy

Upland Resources (Upland) is a relatively new oil and gas exploration and production company that is seeking to build a portfolio of upstream assets. On 26 October 2015, the company was admitted to the Official List by way of a Standard Listing and to trading on the London Stock Exchange's main market for listed securities. It raised £1.3m (gross) at 1p per share upon its IPO.

Upland was established to take advantage of the management team's knowledge and experience together with the buying opportunities that the current low oil price provides to assemble a portfolio of assets with the following characteristics:

- Attractive risk: reward balance.
- Low cost entry and cheap work programme costs.
- Robust economics – so seen as viable at low energy prices.

The company notes its low corporate overheads with Directors interests aligned with shareholders in owning 38.4% of the issued share capital (*pre-placing – see Fundraising section below*). The experienced and well-connected management team is led by CEO, Dr Stephen Staley with 33 years' experience in the international oil, gas and power sectors with the likes of BP, Conoco, Cinergy, Cove Energy and 88 Energy amongst others. Non-Executive Chairman, Norza Zakaria was the Political Secretary to the Malaysian Ministry of Finance between 2004 and 2008 and held a senior position with Petronas. Geological Advisor, Dr John Nicholson has over 41 years' international experience as a petroleum geologist with 11 years at BP and Britoil. Whilst at BP, he was heavily involved in the East Midlands and Wytch Farm discoveries and development. Non-Executive Director, Jeremy King is a Director and Head of Corporate Finance at Optiva Securities, the company's Financial Adviser and Broker.

In July 2016, the company appointed Datuk Haji Bolhassan as a Non-Executive Director. He was an elected member of the Sarawak State Legislative Assembly for 14 years until 2011 (*Sarawak is one of two Malaysian States upon the Island of Borneo*), and has many years of political and commercial experience within the region. He also had significant oil and gas experience with Shell in South Korea, Singapore, the North Sea and the Netherlands. His appointment supports the company's strategy to extend its focus to Malaysia and the South East Asian region in line with Upland's ambitions to take stakes in high-impact, low-cost production and exploration assets in the region. The company noted in its RNS announcement on 24 November 2016 that 'projects are under active assessment in Morocco, Malaysia and elsewhere.'

Existing Asset: UK Onshore - East Midlands

PEDL 299

- Upland remapped the field, developed the technical concept, brought in bid partners and won a 14th Round bid for PEDL 299 including Block SK46c & the Hardstoft Field. It has an initial 5 year permit with effect from 21 July 2016 with a second term of 5 years:

- 'Excellent' partners alongside Upland:
 - Ineos Upstream Ltd – part of the global petrochemicals conglomerate and holding 50% (operator).
 - Europa Oil & Gas (AIM: EOG) – experienced & successful onshore UK operator 25%.
- Hardstoft is seen as an attractive low risk, low cost conventional field rejuvenation project in which Upland has recently increased its stake from 16.67% to 25%.
 - Hardstoft was Britain's first oil field – drilled in 1919 and successfully produced oil for 5 years utilising a simple vertical well; little water was produced.
 - Likely that well did not cross any of the expected semi-vertical, natural fractures in the limestone reservoir and the oil produced came from the matrix of the rock. The holders plan to directionally drill a new well to also access the natural, vertical fractures. First steps towards Hardstoft Field development will be the acquisition of seismic.
- Upland and Europa will focus on the conventional play in PEDL 299, including the Hardstoft Field.
- Validated by independent Competent Person's Report (CPR) - *see details below*.

Hardstoft is seen as an 'excellent' first asset by Upland given its low programme costs, a low risk of failure and economics which are robust even at depressed oil prices (*value accretive at an oil price below \$30 per barrel*), so is regarded as aligning well with the company's strategy to ensure that its assets have an attractive risk/reward balance.

An independent CPR prepared by Blackwatch Petroleum Services Limited on behalf of Upland estimates remaining resources to be 3.10 million barrels of oil (MMbbl) of contingent resource plus 3.65 MMbbl prospective resource (making a total of 6.75 MMbbl resource) in the broader Hardstoft structure alone, all sitting in Block SK46c and on a 'best' or central case basis. Total resource net to Upland, based on Blackwatch's CPR, is estimated at 1.6875 MMbbl. Within the CPR, Blackwatch estimates the chance of success for the contingent resource at 80% and 64% for the prospective resource.

Wressle Field Farm-In – Near Scunthorpe

- Acquiring a 10% working interest in PEDLs 180 and 182 from Europa Oil & Gas under a conditional agreement.
- These licences contain the Broughton North Prospect situated in PEDL182 and the Wressle-1 discovery well from which first commercial oil is expected to flow at an estimated constrained rate of 500 barrels of oil per day gross in early 2017 and is probably the nearest-term new onshore UK production opportunity.

The Wressle-1 oil and gas discovery is located within PEDL180 and PEDL182, in Lincolnshire, on the western margin of the Humber Basin. On Extended Well Test (EWT) the well flowed an aggregate of 710 barrels of oil equivalent per day over three horizons, the Ashover Grit, Wingfield Flags and the Penistone Flags.

Wressle independent CPR released in September 2016 by ERCE showed the following summary findings:

- Gross Mean Discovered Stock Tank Oil Initially In Place (STOIIP) of 14.18 million stock tank barrels (stb) across three reservoir sands: Ashover Grit; Wingfield Flags; and Penistone Flags.
- 2.15 million stb classified as discovered - as proved and probable reserves (2P) and contingent resources (2C).
- Gross 2P oil reserves of 0.62 million stock tank barrels in aggregate identified across two reservoir sands, the Ashover Grit and Wingfield Flags that form the basis of the initial development plan which currently excludes development of the material Penistone Flags reservoir sands.
- Substantial resources confirmed in the Penistone Flags - gross 2C Resources of 1.53 million stb of oil and 2.0 billion standard cubic feet (Bscf) of gas.

Broughton North Prospect independent CPR released in September 2016 by ERCE showed the following summary findings:

- Situated in a fault block immediately to the north-west of the Wressle structure within PEDL182. ERCE attributed a high Geological Chance of Success (COS) with a range of 40% to 49% for the prospect.
- STOIIP is 3.43 million stb across the Ashover Grit and Penistone Flags with Mean Prospective Resources of 0.51 million stb of oil plus 0.51 billion standard cubic feet of gas.
- Mapping of the Broughton North Prospect also benefits from the same 3D data set as was used to identify the Wressle-1 oil and gas discovery. Broughton North is a drill-ready prospect, subject to obtaining planning permission.

The current interests held in both PEDL 180 and PEDL 182 are as follows:

- Egdon Resources U.K. Limited (AIM: EDR) - operator 25%
- Celtique Energie Petroleum Limited 33.33%.
- Europa Oil & Gas Limited 30%*
- Union Jack Oil plc (AIM: UJO) 11.67%

** Completion of the Wressle farm-in agreement is subject to a number of conditions being satisfied including completion of the placing, consent of the OGA (the UK Oil & Gas Authority) to the transfer of the 10% participating interests in each of PEDLs 180 and 182. OGA approval of the Wressle Field Development Plan as well as receipt of approvals of certain planning applications and an environmental permit variation. It is not anticipated that completion will take place before 15 December 2016. Assuming completion of the farm-in agreement, Europa's interest will reduce to 20%.*

Malaysia

- Relationships with the likes of Petronas.
- Excellent local contacts providing unique access to opportunities.
- Politically stable country.

Morocco

- Long experience, good contacts and now assessing several 'attractive opportunities.'
- Good hydrocarbon licensing terms, high gas prices.
- Politically stable and welcoming commercial environment.

Final Results

On 31 October 2016, Upland announced the publication of its Annual Report and Results for the period ending June 2016. These showed a loss for the financial year of £420,566 (2015: loss of £221,069) with cash and cash equivalents standing at £1.03m as at 30 June 2016.

Fundraising

On 24 November 2016, Upland announced it had raised £2.2m (gross) in a conditional placing (*subject to admission*) of 169,230,770 new ordinary shares at 1.3p. In addition to new and existing institutional and private shareholders, all of the Directors are participating in the fundraising by subscribing for £842k consideration. The proceeds will be used to fund the £1.3m cash consideration (*total amount payable £1.6m with £300k in new shares – 'initial consideration shares'*) of the Wressle farm-in through its conditional agreement with Europa Oil & Gas, together with Upland's share of capital costs relating to PEDLs 299, 180 and 182, on new ventures and the ongoing costs of running the business. There is a further contingent consideration of £250k in new shares to Europa on substantial commercial production from the contingent and prospective resources.

Application will be made for the placing shares to be admitted to listing on the Official List and dealings in the new shares are expected to commence on 1 December 2016 on the Main Market. Following admission, the company will have 383,168,631 ordinary shares in issue. Application will also be made for the 23,076,923 initial consideration shares to be admitted to trading as soon as practicable following completion of the Wressle farm-in arrangement.

Conclusion

Given its limited operating history, Upland represents a speculative investment opportunity and hence is not without risk. However, it has been able to demonstrate progress since its IPO on the Main Market with its intent to acquire quality upstream assets on attractive terms. This placing to acquire a working interest (*subject to conditions*) in Wressle will according to the company provide very near term production and potentially substantial cashflows to underpin its growth strategy. Phase 1 being to acquire interests in lower risk, economically robust assets with phase 2 to add higher risk, higher impact opportunities. It notes that phase 1 has now been put in place and phase 2 is well underway. We would therefore anticipate ongoing newsflow as Upland looks to move forward.

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Disclosure Lists:

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Research Disclosures Applicable to this Recommendation: N/A

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