

Upland Resources*

14 January 2019

BUY

Stock Data

Share Price:	3.2p
Market Cap.:	£18.7m
Shares in issue:	585.5m
Fully diluted equity	606.3m

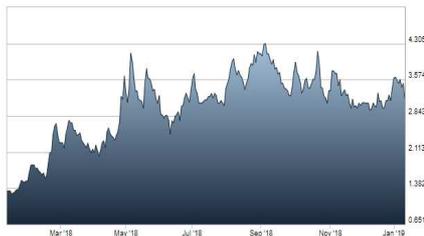
Company Profile

Sector:	Oil & Gas
Ticker:	UPL
Exchange:	LSE

Activities

Oil and gas exploration, appraisal and development in the UK onshore and offshore sectors augmented by longer term opportunities in Malaysia and Tunisia.

Performance Data



Source: LSE

Directors

Stephen Staley:	CEO
Bolhassan Di:	Non-Executive Chairman
Jeremy King:	Non-Executive Director

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Tunisia augments the Upland portfolio

On 24 December 2018, Upland announced that it had been formally awarded the highly prospective Saouaf licence located in northern Tunisia. Saouaf is strategically situated in a region of highly developed gas production infrastructure and is estimated to contain up to 2 TCF of gas across a dozen exciting potential drilling targets. Within this portfolio, the existing Dekrila discovery is a primary target for further appraisal work and is estimated to contain over 227 BCF of recoverable gas resources.

The large and highly prospective Saouaf licence covers an area of over 4,000 km². In a recent CPR published by Blackwatch Petroleum Services, the independent consultant has ascribed nearly 2 TCF of gas across 12 separate structures to Saouaf. These leads and prospects are concentrated in the Cretaceous Aptian Serj and Senonian intervals and the largest prospect, BouDabbous Flower, is estimated to contain over 800 BCF of gas alone.

Of particular interest to Upland is likely to be the Dekrila discovery made in 1955 prior to the existence of a local gas market and an effective distribution infrastructure in Tunisia. Dekrila is located in close proximity to the large diameter Transmed pipeline, one of several that traverse Saouaf, and is estimated to contain over 227 BCF of gas.

Under the terms of the agreement with the Tunisian government, Upland has agreed to conduct early stage exploration work over an initial two year licence period which will include acquiring 300 km of new 2D seismic and reprocessing existing seismic data on the licence.

Work on the licence will be conducted as a 50:50 joint venture with Tunisian state oil company, ETAP, whereby Upland will meet all exploration and appraisal expenses and in the event of a discovery, ETAP reserves the right to take a participating interest up to 50%. At this stage, ETAP agrees to pay its corresponding share of past costs and also fund its share of future expenditure

We have ascribed an initial indicative valuation to Saouaf of US\$45.3m which relates to the company's anticipated ultimate interests in the Dekrila gas discovery and the SNJ oil prospect only at this stage. This is equivalent to 5.9p per share on a fully diluted basis. We believe that Saouaf represents a long term strategic play for Upland given that there is a substantial portfolio of potential targets to assess and high grade. As such, we anticipate augmenting our valuation of the asset as the future work programme gathers pace.

Tunisia has boosted our valuation of Upland to 14.1p per share on a fully diluted basis. We caveat this assessment with the acknowledgement that Upland's 40% interest in the Wick exploration, currently drilling offshore UK represents 6.7p of the aggregate total. A successful outcome at Wick is likely to provide upside to our assessment and the opposite will likely reduce this segment of the company's value to zero. Therefore, although we believe that Tunisia provides Upland with significant strategic asset with major long term upside, we note that results from Wick, anticipated prior to the end of the month, have the potential to generate substantial amendments to our core company valuation.

Tunisia – The Saouaf licence

On 24 December 2018, Upland announced that its subsidiary, Upland (Saouaf) Limited, a wholly owned subsidiary of the company, had been awarded the exclusive Saouaf licence for hydrocarbon exploration and appraisal onshore northern Tunisia.

The Saouaf licence covers an area of 4,004 km² of open acreage comprising the Saouaf Permit area and the Tunisian Government’s Direction Generale des Hydrocarbures (DGH) has confirmed the award of the licence in the joint names of Upland Saouaf and the Tunisian state oil company, ETAP (Enterprise Tunisienne d’Activités Pétrolières).

Highly prospective licence

Saouaf is understood to be a highly prospective licence with substantial volumes of estimated recoverable gas from several conventional targets. Within at least a dozen potential accumulations, the primary target on the licence is likely to be the existing Dekrila gas discovery made in the 1950s which was not developed at the time due to the lack of a viable gas market. This situation has changed significantly over the intervening period and the licence map below demonstrates that the major Trans Mediterranean (Transmed) gas pipeline, among others, now bisects Upland licence offering the opportunity to tie in future gas discoveries to existing local and international markets.

Location of the Saouaf licence in northern Tunisia



Source: Blackwatch Petroleum Services, Geology.com

Gas prospectivity

Although field visits by Upland have demonstrated the presence of additional surface oil seeps and the company’s competent person, Blackwatch Petroleum Services has indicated that there is a significant oil play on the licence, the recent technical fieldwork and subsequent analysis has confirmed a significant potential for gas within a wide portfolio of leads and prospects on the Saouaf licence.

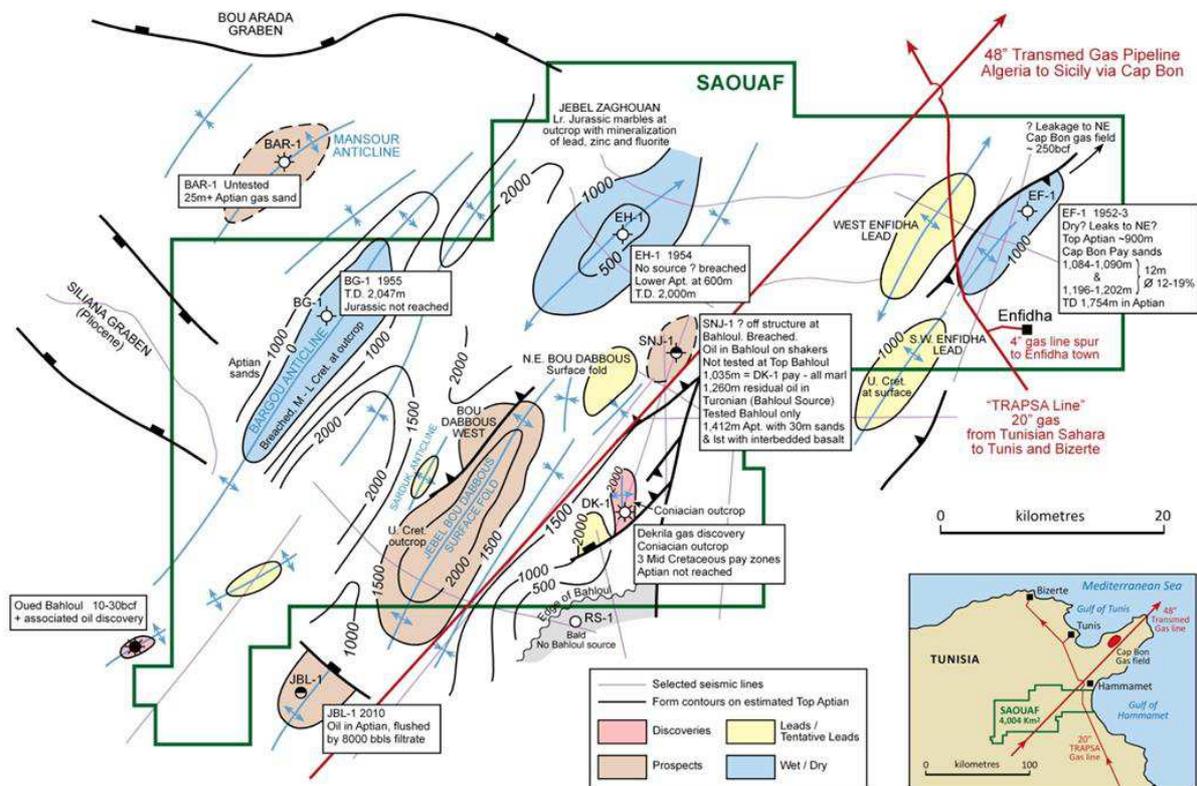
The map below depicts clearly the wide range of leads and prospects on the licence, many of which are situated in the Aptian (Lower Cretaceous aged rocks) horizon and the later Senonian interval, the final Cretaceous epoch from 88.5-65 million years ago. The licence contains the Bou Dabbous group of leads, the largest of which is estimated to contain over 500 BCF of gas within a single horizon and also the exciting Dekrila discovery which is estimated to contain over 227 BCF of gas.

The Blackwatch CPR, dated 24 December 2018, recognised reservoir facies in multiple formations including the Aptian Serj and the Senonian Aleg and Abiod carbonates which are considered the primary objectives on the licence.

The map below depicts a series of large prospects and leads located in close proximity to the 48 inch Transmed gas pipeline which traverses the licence from southwest to northeast and the smaller 20 inch TRAPSA line which delivers gas to local markets in Tunis and Bizerte.

Of particular interest is the Dekrila gas discovery located in the south central area of the permit. This discovery has demonstrated unstimulated gas flows from three Cretaceous pay zones and a potential deeper Aptian zone which is also believed to be gas prone.

Saouaf licence – Leads and prospects



Source: Upland Resources Limited

Prospect inventory

Blackwatch has assembled a significant inventory of leads and prospects for the Saouaf licence based on interpretation of the available seismic data on the permit in addition to composite logs and completion for five wells in and around the licence area. Blackwatch was also able to review geology maps and reported well results for the Cap Bon gas field located to the northeast of Saouaf.

Consequently, the CPR identified a total of 13 leads and prospects. Of these, 12 were considered gas prone and are outlined in greater detail in the table below. The table omits the single oil lead on the licence although Blackwatch has outlined that SNJ Prospect could contain prospective recoverable resources of up to 42 mmbbls.

Blackwatch estimates that the Saouaf licence could contain almost 2 TCF of gas across multiple leads and prospects in addition to the 42 mmbbls of potential oil resources already outlined. This is positive given that Upland had initially believed that estimated volumes would be considerably lower.

Saouaf licence: Lead and prospect inventory

Prospect/Lead	Zone/Reservoir	BCF	BCF	BCF
		P90	Mean	P10
DK Discovery	Test Zone 8	9.1	48.5	92.6
	Test Zone 7	17.3	74.4	135.8
	Test Zone 5 & 6	14.3	58.9	109.8
BouDabbous Flower	Aptian Serdj	11.8	45.3	84.5
	Late Cretaceous	83.4	311.2	562.0
BouDabbous Hanging Wall	Aptian Serdj	135.8	501.6	908.4
	Senonian	3.8	52.1	112.8
BouDabbous West	Aptian Serdj	6.0	84.6	185.3
	Senonian	9.0	50.8	102.8
Enfida SW Lead	Aptian Serdj	8.9	58.9	121.1
	Senonian	48.7	136.1	241.0
Enfida West Lead	Aptian Serdj	9.0	44.5	87.8
	Senonian	3.0	56.8	126.1
EF Aptian Rollover	Aptian Serdj	9.7	69.2	143.3
	Aptian Serdj	7.0	51.3	107.8
FK12-08 Central	Senonian	9.2	49.2	99.0
FK12-08 Lead	Aptian Serdj	4.8	87.6	204.6
KN28 North	Senonian	5.8	26.8	52.1
	Aptian Serdj	9.5	37.6	71.4
KN28 South	Senonian	8.4	47.6	96.0
	Aptian Serdj	10.1	44.9	86.2
Siliana Graben Lead	Senonian	5.6	23.2	45.1
Total		430.2	1,961.1	3,775.5

Source: Blackwatch Petroleum Services

Dekrila is the likely primary target

We note that the licence contains a raft of sizable targets including the Bou Dabbous Flower prospect, which could contain in excess of 800 BCF in two horizons, and the Enfida SW lead which is estimated to contain over 180 BCF in the same two intervals.

However, of primary interest to Upland is the Dekrila discovery which has estimated recoverable resources of over 227 BCF. As outlined earlier, this accumulation was drilled in 1955 and discovered gas, small volumes of which were flowed to the surface. Due to a lack of a local market and a distribution infrastructure at the time of discovery, Dekrila was not developed. However, much has changed over the intervening period and Dekrila is located in close proximity to the Transmed gas pipeline and represents a prime candidate for further drilling and appraisal.

Saouaf terms and conditions

Upland Saouaf will act as operator with ETAP as its partner in a 50:50 joint venture arrangement. The company understands that this structure, along with the PSC arrangement, represents one of the two structures applicable to the grant of all hydrocarbon exploration and exploitation licences in Tunisia. Under the terms of the JV, Upland has agreed to fund all exploration and appraisal work on a 100% basis and in the event that the company makes a discovery, ETAP can elect, at its sole discretion, to take a participating interest of up to 50% in the development of a new discovery. At this point, ETAP would be obligated to pay its corresponding share of past costs to Upland and fund all subsequent expenditure in accordance with its equity interest.

The licence is for an initial two year term and may be converted and thereby extended in term at Upland's option as long as the work commitments for the initial term have been fulfilled on time.

Specific commitments

Over the initial two year term of the Saouaf licence, Upland has agreed to acquire, process and interpret 300 km of new 2D seismic data, reprocess the existing 2D data and carry out certain geological and geophysical studies.

Upland's bank has also submitted a US\$1.0m bank guarantee that is lodged in favour of the Tunisian Government against these work commitments. This facility is in place and will be released in a phased manner as the company's fulfils the initial work programme commitment.

Initial value for Tunisia

The Saouaf licence is at an early stage for Upland and we believe that ascribing value to each lead and prospect within the group's Tunisian portfolio would not be appropriate at present. However, Saouaf contains the potentially exciting Dekrila discovery, which is likely to represent the focus of early appraisal work and the prime candidate for a development project over a longer term time horizon. As such, we have elected to ascribe an initial risked valuation of US\$27.8m for Dekrila in order to reflect the very early stage potential for the licence. Our methodology is summarised below.

Indicative valuation for Dekrila

Item	
Recoverable prospective resources (BCF)	227.1
Upland interest	60%
Net unrisked prospective resources (BCF)	136.3
GCoS	55%
Net risked recoverable resources (BCF)	74.9
NPV per mcf of gas (US\$)	0.74
Estimated project NPV (US\$m)	55.7
Commercial risk factor	50%
Indicative valuation (US\$m)	27.8

Source: Optiva estimates

Valuation assumptions

The recoverable prospective gas resources of 227.1 BCF are based on the findings of the Blackwatch CPR. However, to arrive at our risked valuation for the Dekrila discovery, we have primarily applied an assumption that ETAP will back-in for up to a 40% interest in a development. We understand that this could be conservative and an ultimate ETAP interest of 25% may be more likely according to historical practises. However, the state oil company retains the right to acquire a 50% interest maximum and although we believe this an unlikely outcome, we are erring on the side of caution at this stage.

Although a declared discovery at this stage, we have applied a 55% chance of geological success (CGOS) to Dekrila given that the well would be subject to long term flow testing prior to be declared commercial and the initial well did not reach the deeper Aptian interval. As this is not without significant risk, our technical risk factor remains high at this stage.

We have calculated our unit NPV on the basis of a similar sized notional development project. Within our assumptions, we have used conservative metrics including a production profile comprised of peak output of 100 mmcfpd from an eight well development. We have assumed that production commences in 2023 with end of field life after 15 years. Our gas price assumption is US\$7.00 flat over the life of the field, total capex amounts to US\$0.70 per mcf and opex commences at an equivalent rate of US\$1.05, increasing to almost US\$2.50 after 10 years of production.

To our NPV, we have applied fiscal instruments in line with the Tunisian oil and gas tax regime amounting to peak royalty payments of 10% on gross production and an income tax rate equivalent to 50% applicable to profits on gas production.

Following our indicative project NPV for Dekrila, we have applied a further 50% commercial discount to account for a range of non-technical risks including permitting, financing and political risk factors.

Indicative valuation ascribed to SNJ oil prospect

As outlined previously, Upland states that a 42 mmbbls oil resource is located in the SNJ prospect, located north of Dekrila in the central region of the Saouaf licence. The company notes that oil from the Bahloul Formation was seen on the shakers during drilling of the SNJ-1 well, which has helped to de-risk this prospect. As such we have elected to include the SNJ oil prospect in our initial assessment on similar methodology to our treatment of the Dekrila discovery.

Indicative valuation for SNJ oil prospect

SNJ Prospect	mmbbls
Prospective resources (mmbbls)	42.0
Upland interest	60%
Net unrisked prospective resources (mmbbls)	25.2
Chance of success	20%
Net risked recoverable resources (mmbbls)	5.0
NPV per bbl of oil (US\$)	6.91
NPV (US\$m)	34.9
Commercial risk factor	50%
Indicative valuation (US\$m)	17.4

Source: Optiva estimates

Company valuation

On a fully diluted per share basis, we have included our initial risked Tunisia valuation in our aggregate valuation for Upland. On the assumption of total issued share capital of 585.5 million shares currently in issue plus an additional 20.8 million warrants and options outstanding, we find that Tunisia boosts our valuation for the company to over 14p per share.

Noted in this valuation is the exclusion of the group's recent convertible loan note facility for £3.5m which lapsed at the beginning of the year. Our initial US dollar based valuation is converted to Sterling at an average rate of approximately US\$1.27: £1.00 which reflects the average rate for the current month.

Upland valuation summary

Item	Status	Valuation	Valuation	Diluted
		\$m	£m	p
Hardstoft field	Contingent resources	6.6	5.2	0.9
Hardstoft East	Prospective resources	4.4	3.4	0.6
Wick exploration prospect	Prospective resources	51.9	40.7	6.7
Tunisia (Dekrila)	Prospective resources	27.8	21.8	3.6
Tunisia (SNJ)	Prospective resources	17.4	13.7	2.3
Overheads	Corporate	-1.3	-1.0	-0.2
Cash (debt)	Corporate	2.0	1.5	0.3
Options	Corporate	0.3	0.2	0.0
Total		109.1	85.6	14.1

Source: Optiva estimates

The Wick caveat

Within our assumptions, we have ascribed a risked valuation for Upland's 40% interest in the Wick exploration well which is currently drilling in the Moray Firth offshore UK. We believe that a result for Wick is expected before the end of the month and that a successful result or otherwise will impact both the Upland share price and our treatment of the potential value of Upland's Wick interest to a considerable extent.

An unsuccessful exploration well on Wick is likely to result in our rebasing of the asset value to zero. However, in the event of a successful outcome, we reserve the right to amend our valuation as news flow from the operator of Wick, Corallian Energy, is released over time.

A more comprehensive analysis of Upland's interest in Wick can be accessed in our research notes dated 6 December 2017 and 30 May 2018.

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Optiva Securities Limited, 49 Berkeley Square, Mayfair, London, W1J 5AZ
Tel: 0203 137 1902, Fax: 0870 130 1571

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