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CAPITAL STOCKBROKERS

UK Oil & Gas Investments PLC (UKOG.L) **7 JULY 2015**

Gatwick Gusher and UKOG's other Assets.

Over the last few months UKOG has continued to de-risk its flagship oil discovery asset at Horse Hill near to Gatwick Airport, with the publication of several technical reports from independent consultants such as Schlumberger and Nutech. Using these reports and other information gained from the discovery over the last nine months we estimate a value for UKOG's 20.358% Horse Hill licence interest. We also attribute a value to UKOG's other project stakes in Southern England, many of which have been over-shadowed by the interest generated from Horse Hill, but nevertheless warrant closer attention.

As detailed in full in this report in Tables 2 to 6, we have calculated a risked value in our 'Base Case' estimate for the Horse Hill licences (PEDL137, PEDL246) of $1.7bn, which is worth $353m net to UKOG. This may seem a huge number, but it only equates to just under 19 cents per barrel, given Nutech's P50 estimate of 9.2bn barrels of 'oil in place' or just over $3 per barrel after a modest 6% oil recovery rate is assumed. A flow test anticipated to take place later this year will provide us with more information on the recovery rates obtainable, and economic potential.

Although we currently estimate the Horse Hill permits ($353m) make up 84% of the total risked asset value of $419.6m, there is at least one other project that could be a company maker, namely the offshore Isle of Wight (IOW) licence (P1916). Drilling of 'M Prospect' next year could generate as much excitement in the market as Horse Hill. Its proximity to Europe's largest onshore oil production field at Wytch Farm in Dorset may also result in its drilling campaign being closely watched. Our estimated net (77.5% stake) risked value to UKOG of the interest comes to $32.2m. In addition, the management hope to be awarded an additional licence covering almost half of onshore Isle of Wight in the pending 14th UK Landward Licensing Round, the outcome of which is expected within the next three months.

Proving the concept at Horse Hill has opened the door to providing a better understanding of other oil producing potential areas in the Weald Basin. One such licence of note is Holmwood (PEDL143), in which UKOG last week acquired a 20% stake *(subject to planning permission being granted for the exploration well)*, which is directly east of Horse Hill. Holmwood appears to be a Horse Hill 'look-alike'. For the moment we can only value the licence interest at a 'Base Case' value of $2.1m, because it is based upon an old CPR estimate from 2012, which pre-dates the recent oil discovery at Horse Hill. If approvals can be secured to drilll a well and a discovery is made, then the value of this interest could increase significantly. A horizontal development well is expected at Markwells Wood (PEDL126) in 2016, in a discovery which management now believe is an extension of the neighbouring producing Horndean oil field. Baxter's Copse (PEDL233), upon which an appraisal well is expected to be drilled in the coming 18 months, along with small stakes held in existing oil producing and cash flow generating licences, all add up to a rich portfolio mix.

After taking into consideration cash, debt and anticipated drilling commitments over the next 18 months, we arrive at a final valuation for UKOG of $413m (£266m). This equates to 13.1p per share, representing considerable upside from the current share price of around 2p. Given this valuation, the company maker and world class potential of several projects and speed at which UKOG is adding new licences, it could be argued the Company is on a one-way trajectory towards being a FTSE 250 mid cap oil industry player. With these thoughts in mind, we recommend UKOG as a 'Strong Buy'.

STRONG BUY*

Price Target:
13.1p - Base Case

(3.7p Low Case, 87.9p High Case)

Price Data

Price:	1.98p
Market Cap:	£40m
Shares in Issue:	2,031m
52 Week High/Low	2.97p/0.36p

Profile

Sector:	Oil & Gas
Ticker:	UKOG.L
Market:	AIM - London
Weblink	ukogplc.com

Activities

Production and exploration of UK oil and gas assets.

Financials

Cash (as at 26/06/15):	£8.0m
Est. Debt:	(£0.3m)
Unused Debt Facility	£6.2m

Directors & Officers

David Lenigas	- Chairman
Donald Strang	- Finance
Jason Berry	- Ex Dir
Steve Sanderson	- CEO (non Board)

Major Shareholders >5%

TD Direct Investing Nom'	- 7.4%
Barclayshare Nom'	- 7.3%
Forest Nom'	- 6.4%
HSDL Nom'	- 5.7%
Hargreaves Lansdown	- 5.7%

Dowgate Est. Asset Val (Base Case)

Horse Hill Licences	$353.0m
Offshore IOW	$ 32.2m
Baxters Copse	$ 16.8m
Markswell Wood	$ 13.4m
Holmwood	$ 2.1m
Producing Assets	$ 2.1m

Newsflow Events

Holmwood Inquiry result	Aug 2015
14th Licensing Rd results	Sept/Oct 2015
Horse Hill Flow Test	Q3/Q4 2015
Markwells sidetrack well	2016
IOW drilling 'M Prospect'	2016/17
Baxters C' appraisal well	2016/17

Dowgate Capital has been commissioned by UK Oil & Gas Investments PLC to write this broker research note.

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Introduction & Background

UK Oil & Gas Investments PLC (UKOG) is a relatively new company that was founded in late 2013 following a reverse takeover of cash shell Sarantel plc. The Group is headed up by the well-known serial AIM resource entrepreneur David Lenigas, in the role of Chairman and is backed up by an experienced technical team. This includes CEO Stephen Sanderson, who has over 30 years of global experience in the oil industry and has played a significant role in the discovery of 13 commercial hydrocarbon discoveries, including the giant Norwegian Smørbukk-Midgard fields.

As its name suggests, UKOG has built up in the United Kingdom an extensive portfolio of oil and gas assets at both the exploration and production stage. The projects are all based in Southern England, in particular the Weald Basin, which covers most of Sussex, along with parts of Surrey, Kent and Hampshire.

A large part of UKOG's projects were added in 2014 following the £1.5m acquisition of the UK assets of Northern Petroleum Plc, including small interests in producing fields at Horndean and Avington, significant stakes in onshore oil discoveries at Markwells Wood and Baxters Copse and also an offshore exploration licence next to the Isle of Wight.

The project that has attracted the greatest attention from investors and gained widespread media attention is Horse Hill near to Gatwick Airport. In late 2014, an oil discovery was made in the Upper Portland Sandstone zone, following the drilling of Horse Hill-1 (HH-1). The size of the discovery from this shallowest zone, with an estimated most likely gross 'oil in place' of 21m barrels was initially viewed as disappointing by investors. Subsequent drilling at deeper levels, and detailed analysis of data gathered during the drilling campaign by UKOG and several independent technical consulting organisations including Schlumberger and Nutech have outlined that significant quantities of oil could be present both within the Horse Hill licences and in the wider Weald Basin in Southern England. Independent consultants Nutech estimated in April 2015 'oil in place' of 158m barrels of oil per square mile on the 55 sq mile (142.9 sq km) Horse Hill licences, and that this could be repeated across the entire Weald Basin. Schlumberger's later analysis of 271m barrels of oil per square mile confirmed the overall magnitude of oil in place. These estimates are for 'oil in place' before recovery rates are taken into consideration. The next stage later this year at Horse Hill is to conduct a flow test to determine the recovery rates from the Portland Sandstone and the presence of flowable oil in the Kimmeridge limestone zones, which should provide a clearer picture of Horse Hill's economic viability. It may also have wider implications for the exploration of other nearby areas such as UKOG's recently acquired interest in the adjacent Holmwood licence.

Along with the Horse Hill licences, another company maker for UKOG could be the offshore permit on the Isle of Wight, upon which the 'M Prospect' is likely to be drilled within the next 18 months. UKOG has also applied for another 200 sq.km licence onshore Isle of Wight in the current 14th Landward Licensing Round. The outcome of this application should be known within the next 3 months.

In terms of finance, UKOG is well funded to meet potential drilling exploration and working capital requirements for the next 18 months, based upon its current portfolio of interests. As of 24 June 2015, when the interim results were released, UKOG said cash and receivables amounted to approximately £8m. This includes £6m raised through a share placing in June 2015 at a placing price of 2.25p. In addition, as at 24 June 2015 UKOG had surplus borrowing capacity of up to $9.6m from a debt facility with YA Global Master SPV Ltd.

Project Summary

Project	Licence	Interest	Operator	Area Sq km	Stage
Horse Hill	PEDL137/ 246	20.358%	Horse Hill Developments Ltd	142.9	Discovery
Offshore IOW	P1916	77.5%	UKOG	46.7	Exploration
Baxters Copse	PEDL233	50%	IGas Energy	89.6	Discovery
Markwells Wood	PEDL126	100%	UKOG	11.2	Discovery
Holmwood	PEDL143	20% earn in	Europa O&G	91.8	Exploration
Horndean	PL211	10%	IGas Energy	27.3	Production
Avington	PEDL070	5%	IGas Energy	36.0	Production
Lidsey	PL241	4.2%	Angus Energy	5.3	Production
Brockham	PL234	3.6%	Angus Energy	8.9	Production

Table 1

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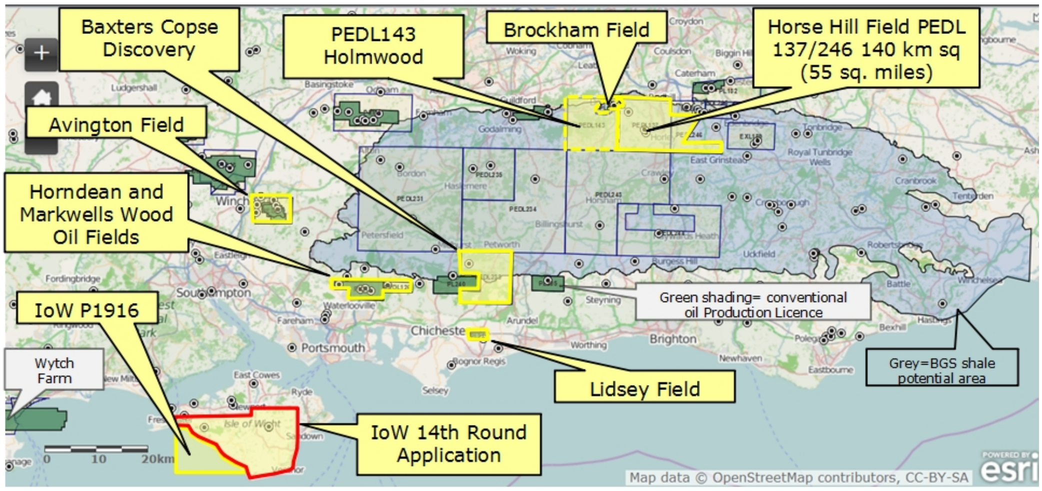


***Map 1:** UKOG's licence interests, Source UK Oil & Gas Investments PLC. The most recent licence interest addition of Holmwood (PEDL143) is subject to future planning permission being granted.*

Horse Hill (PEDL137 & 246) – 20.358%

The PEDL137 and 246 licences cover an area of 142.9 sq km on the Surrey/West Sussex border. UKOG's interest of 20.358% consists of a direct 30% holding in Horse Hill Developments Ltd (HHDL), which owns 65% of the licences (net 19.5%) plus a 1.32% interest in HHDL held via the Company's 6% shareholding in Angus Energy (net 0.858%). Other HHDL stake holders include AIM listed Alba Mineral Resources plc, Doriemus plc, Solo Oil Plc and Stellar Resources plc, who each hold a 10% stake (6.5% net), along with Evocutis plc which holds 2% (1.3% net). Magellan Petroleum (UK) Limited holds the remaining 35% of the licences, not held by HHDL.

The licences are located on the central northern side of the Weald Basin that stretches across Southern England from Hampshire (near the Wytch farm producing field) in the west across Sussex and Surrey to Kent in the east. The Basin is a proven petroleum system containing many oil and gas fields. The Horse Hill drill site lies 7.5 km from the producing Brockham oilfield, in which UKOG holds a 3.6% net interest. Other companies also produce from wells in the Weald Basin such as IGas and Angus Energy. The Horse Hill conventional Upper Portland sandstone discovery covers an area of 16 sq km in the south west of PEDL137, and is located 3 km from Gatwick Airport.

In 1964, Esso drilled the Collendean Farm-1 well, which lies on the north-eastern edge of the Horse Hill structure, which found good oil shows, but was not viewed as being economic to produce. At around the same time Esso also made the Bolney-1 gas discovery in West Sussex in 1963 and two years later the Bletchingley-1 oil and gas discovery in Surrey. It was not until 1983 that a significant commercial find was made within Surrey, with Conoco's discovery at Palmer's Wood that is located 20 km to the north west of Horse Hill.

The Horse Hill conventional oil discovery was made in 2014 in the Upper Portland Sandstone zone. Subsequent analysis by the company's technical team and independent consultants Nutech showed that a potential oil pay may also exist within the deeper Kimmeridge, Oxford Clay and Lias Formations. Later this year and subject to the necessary regulatory approvals, UKOG plans to perform a flow test on the Upper Portland discovery and the underlying Kimmeridge limestone, which should provide valuable information in determining an oil recovery rate. The flow test is expected to cost around £500K to £750K (£102K to £153K net to UKOG).

Holmwood (PEDL143) – 20%

The most recently acquired oil asset, is located just to the west of Horse Hill and just south of the Brockham oil field. The licence contains the Holmwood prospect, which the licence partners intend to drill to a total depth of 1,400 metres to intersect the Upper and Lower Portland Sandstone reservoir, Kimmeridge Clay section and Corallian sandstone targets. UKOG's transaction and the drilling of the Holmwood exploration well is subject to the outcome of a planning inquiry held by the Planning Inspectorate, the decision of which is anticipated to be made in early August and also receipt of approval from the Oil & Gas Authority.

UKOG is required to pay a 40% share of drilling costs for the well to obtain a full 20% working interest in the licence. The cost of drilling is estimated at £3m, with UKOG's contribution capped at £1.2m. If costs exceed £3m, then the licence partners will meet any further costs on a pro-rata basis according to their working interest percentage.

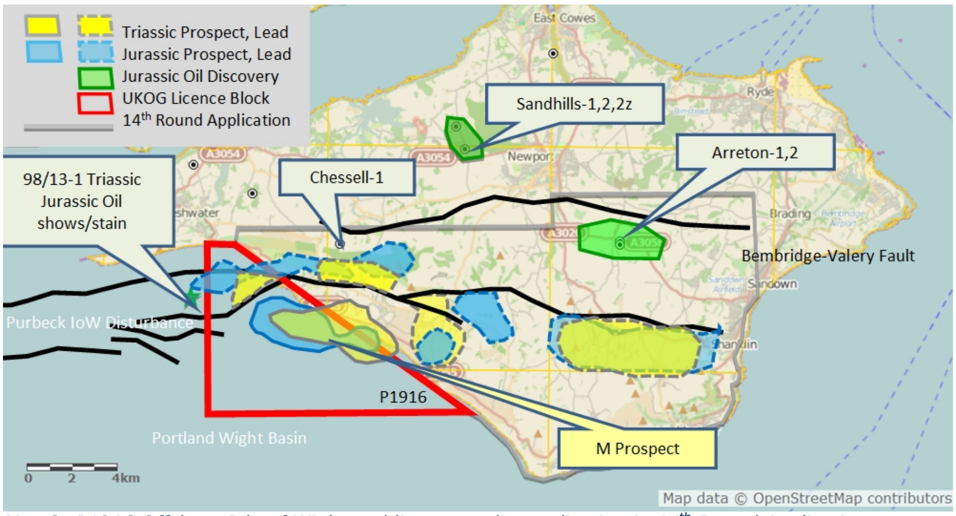
A CPR by ERC Equipoise (June 2012) estimated an unrisked prospective resource of 5.6m barrels of oil (mean level) for the combined Portland Sandstone and Corallian targets. EPC believe there is an equal chance of finding either gas or oil. If gas is discovered, the estimated unrisked prospective resource would be 11.7 bcf (mean level).

Offshore IOW (P1916) – 77.5%

This is UKOG's only offshore interest, located just to the South-West of the Isle of Wight coast. UKOG is operator and majority owner holding 77.5%, with Magellan owning the remaining 22.5%. The licence was extended recently until 31 January 2017. The licence is in the Wessex Basin, a different basin to the remainder of the Group's projects, which are in the Weald Basin. The rock sequence on this licence is however near identical to that of discoveries found in the Weald Basin, but importantly includes the additional deeper Triassic Sherwood sandstone reservoir as found in Wytch Farm. Management are confident that the reservoir quality will be favourable as demonstrated by nearby wells.

The 46.7 sq km licence area in the Isle of Wight region could be extended by an additional 200 sq km later this year if UKOG, in partnership with Solo Oil plc and Angus Energy Limited, is awarded an adjacent onshore licence in the current 14th UK Landward Licensing Round.

P1916 contains the drill-ready 'M Prospect', with both oil and gas targets. Internal estimates for the 'M Prospect' from UKOG are gross unrisked P50 'oil in place' of 35.3m gross barrels for the Portland Limestone target and 71.3m gross barrels for the Triassic Sherwood Sandstone target. The gas case is estimated to contain an unrisked 197 bcf gross within the Triassic Sherwood Sandstone objective. UKOG estimate the probability of success ranges from 11% to 35%. If a discovery is made in the Triassic, the management believe that the recovery factors could be high given that oil recovery from the Triassic fluvial sandstones at Wytch Farm field in Dorset is around 50%. Gas recoveries could be even higher, at over 90% as similar Triassic fluvial Sherwood sandstones gas reservoirs in the Hamilton and Hamilton North gas fields in the Irish Sea have recoveries of 97% and 91% respectively. Drilling of 'M Prospect' is likely to cost around £5m to £6m (£3.88m to £4.65m net to UKOG).



Map 2: P1916 Offshore Isle of Wight and licence under application in 14th Round Application.

Markwells Wood (PEDL126) – 100%

Markwells Wood is located just to the east of the Horndean producing oil field (UKOG 10%). The discovery at Markwells Wood in 2011 was followed by a 6-month extended well test, which produced a total of 3,931 gross barrels of oil, with a peak flow rate of over 100 barrels of oil per day (bopd).

Following recent technical studies the management now believe Markwells Wood is an extension of the Horndean producing oil field, and to this end, plan to seek permission to drill a 3,000 feet horizontal side-track well to develop the discovery, which is expected to cost around £2m to £2.5m.

Baxters Copse (PEDL233) – 50%
The licence area includes the undeveloped Baxters Copse oil discovery made in 1983 in the Jurassic Great Oolite, along with the Burton Down and Selhurst Park oil prospects. Independent consultants Senergy estimate (July 2014) 2C Gross Contingent Resources of 4.67m barrels (2.3m net). Senergy estimate the recovery factor could be between 6% and 12%, as the fields nearby at Singleton and Storrington produce oil from the same reservoir. 'Oil in place' is estimated at 51.9m gross barrels by Senergy

Operator and 50% owner IGas plans to drill a commitment horizontal appraisal well at Baxters Copse, which is expected to cost around £5m (£2.5m net to UKOG).

Horndean (PL211) – 10%
The field has been producing since 1987, after first being discovered in 1983. Production reached a peak of 670 bopd in 1993 and currently produces at around 150 bopd gross (15 bopd net). To date the field has produced around 2.45m barrels of oil. Senergy (July 2014) estimates 2P gross reserves of 0.86m barrels (86,000 net to UKOG).

The operator IGas, which owns 90% of the asset, plans to complete new modelling studies for both Horndean and Avington, with the objective of improving current 2P reserves and locating future infill production wells.

Avington (PEDL070) – 5%
Oil at Avington was discovered in 1987, but did not begin production until 2007. Initial production was over 500 bopd gross, but declined to 150 bopd gross in 2009 due to water production issues, and is currently producing at around 72 bopd gross (3.6 bopd net to UKOG).

Senergy (July 2014) estimated gross 2P reserves of 0.063m barrels and acknowledged that with the "right development strategy" considerable upside exists given that RPS (2008) previously estimated 59m barrels of oil place.

Lidsey (PL241) – 4.2%
Along with Brockham, UKOG's net interest in Lidsey is held via its 6% shareholding in Angus Energy, which owns 70% of the licence. The field was first discovered in 1987 following the drilling of Lidsey-1 and commenced production in 2008 from the Middle Jurassic Great Oolite Limestone and Forest Marble. Production from the field was reported to be at a gross 113 bopd in July 2014 declining to 22 bopd in early 2015 due partly to postponed well interventions under current low oil prices.

RPS Energy Consultants Limited estimate (as at 31 December 2013) gross 'oil in place' P50 of 9.52m barrels (0.226 net to UKOG), gross 2C contingent resources 0.41m barrels (0.017 net) and 2P reserves 0.0252m barrels (0.0158m).

Angus Energy plans to drill a new crestal production well on the field.

Brockham (PL234) – 3.6%
The net 3.6% interest in Brockham is held via UKOG's 6% holding in Angus Energy, which has a 60% interest in the licence.

The initial oil discovery was made in 1987 by BP from the Upper Jarassic Portland Sandstone. Full production started in 2002 and reached a peak of 130 bopd in 2004, before being taken off production the following year due to issues with water production. Oil production has since recommenced from another well and the field was last reported to be producing at 28 bopd *(source: Doriemus PLC)*. Angus Energy plans to drill a sidetrack well and has already completed a refurbishment of a 1,200 barrel storage tank facility in anticipation of improved oil production.

RPS Energy Consultants Limited estimated (as at 31 December 2013) gross 'oil in place' of 3.62m barrels at the P50 level (0.13m net to UKOG) and gross 2P reserves of 0.047m barrels (0.0017m). RPS estimate a 2P recovery factor of 7.3% based upon the current 'oil in place' estimates.

VALUATION ANALYSIS

Horse Hill Valuation

The approach to valuing Horse Hill in this research note is the same as was previously used by Dowgate Capital when valuing and analysing a research report for Alba Mineral Resources plc (13 May 2015), which has an interest in the PEDL137 and 246 licences. Since our last Alba research note, a further independent technical assessment released by Nutech Ltd (18 June 2015) provides an 'oil in place' estimate for the licence area at P90, P50 and P10 levels. This latest Nutech assessment provides the basis for most of our valuation for the Kimmeridge and zones lower down, along with the estimates provided by Xodus Group, for their assessment of the Upper Portland Sandstone.

Following the initial discovery at Horse Hill last year, the licences have continued to be de-risked, with the publication of technical reports from Nutech, Xodus and more recently the respected and well known international consultancy Schlumberger, which is the world's largest oilfield service company. With this in mind, our development/resource risk factor has improved from 50% to 35% for the Kimmeridge and lower zones. The risk factor for the Upper Portland Sandstone has also been reduced from 25% to 20%, a lower number than for the Kimmeridge and lower zones due to its shallower location, which should be easier to exploit. We have moderated our discovery value to $12 per barrel, from the $15 per barrel in the Alba research note. As outlined in Table 3, our 'Base Case' analysis takes into account 50% of Nutech's P50 estimate from the Kimmeridge zone and a lower percentage of 25% of the P50 estimate for the remaining deeper zones.

'Oil in Place', PEDL137, PEDL 246 (Gross 100%)
m barrels
Nutech's estimates

Zone	**P90 Low**	**P50 Best**	**P10 High**	**Mean**
Kimmeridge	1,949	5,230	8,881	5,355
Corallian	122	556	1,384	687
Oxford Clay	188	495	908	530
Oolite	410	1,544	3,352	1,769
Lias Clay	462	1,420	2,994	1,625
TOTAL	**3,131**	**9,245**	**17,519**	**9,965**

Table 2: *Source: Nutech Ltd Independent Assessments of Horse Hill Licences – 18 June 2015.*

Kimmeridge (& other sections) Valuation Scenarios **m barrels - oil**	**Low Case**	**Base Case**	**High Case**
Gross Oil in Place for PEDL137 & 246 using Table 2	1,949m *(P90 est. Kimmeridge)*	3,619m *(50% of P50 Kim' est + 25% of remaining P50.)*	10,980m *(75% of P10 Kim' est + 50% of remaining P10.)*
Recovery Rate	3%	6%	15%
Gross Recoverable Oil	58.5m	217.1m	1,647m
Net Interest to UKOG 20.358%	11.9m	44.2m	335.3m
Less 35% Development/Resource Risk Factor **Risked Net Interest**	**7.7m**	**28.7m**	**217.9m**

Table 3: *Kimmeridge and other sections valuation - Source Dowgate Capital.*

m barrels - oil *Xodus Group*	**Low**	**Best**	**High**
Upper Portland Sandstone Gross - 100% Xodus Estimates	14.3m	21.0m	30.4m

Table 4: *Source - Xodus Group, Study estimates for Upper Portland Sandstone conventional reservoir in the Horse Hill-1 and Collendean Farm-1 structures. – 11 May 2015.*

Upper Portland Sandstone Valuation Scenarios	**Low Case**	**Base Case**	**High Case**
Horse Hill-1 & Collendean Farm-1 Structures (PEDL137) *From Table 4*	14.3m	21.0m	30.4
Recovery Rate	10%	20%	30%
Gross Recoverable Oil	1.43m	4.2m	9.1m
Net Interest to UKOG 20.358%	0.29m	0.86m	1.86m
Less 20% Development/Resource Risk Factor **Risked Net Interest**	**0.23m**	**0.68m**	**1.49m**

Table 5: *Upper Portland Sandstone valuation - Source Dowgate Capital.*

Summary PEDL137 & 246 Net Valuation UKOG	**Low Case**	**Base Case**	**High Case**
Table 3 Valuation	7.7m	28.7m	217.9m
Table 5 Valuation	0.23m	0.68m	1.49m
Sub Total – Net Risked	8.0m	29.4m	219.4m
x $12 Discovery Value per barrel – (UKOG's 20.358%) *(100% Gross Level)*	**$95.6m** *($470m)*	**$353.0m** *($1,734m)*	**$2,633m** *($12,934m)*

Table 6: *Horse Hill Licence Valuation Summary - Dowgate Capital.*

Offshore Isle of Wight

Our calculations for the offshore Isle of Wight licence, detailed in Table 7, are based upon the management's published estimates for the 'M Prospect'. Compared to UKOG's other projects, the recovery rates from any oil/gas find on P1916 could be very high, as the management previously outlined when analysing producing fields with similar geology.

To be prudent, our recovery rate estimates are 40% for oil and 65% for gas. These are less than the comparison producing fields highlighted by the management (54% oil, >90% gas). As the prospect is offshore, a lower discovery value of $8 per barrel is used than in our calculations for onshore projects of $12 per barrel. It could be argued that we are being too cautious, as the 'M Prospect' is just off the coast and will be drilled from an onshore location and thus could merit a higher discovery value nearer to $12 per barrel.

P1916 'M Prospect' **m barrels – oil , bcf – gas** UKOG estimates							
Target	**POS**	**Low Case**		**Base Case**		**High Case**	
		Unrisked	**Risked**	Unrisked	**Risked**	Unrisked	**Risked**
Portland Limestone (Oil) 'Oil in Place'	35%	15.7m	**5.5m**	35.3m	**12.4m**	70.2m	**24.6m**
Triassic Sherwood Sst (Oil) 'Oil in Place'	15%	21.7m	**3.3m**	71.3m	**10.7m**	169m	**25.4m**
Triassic Sherwood Sst (Gas) 'Oil in Place'	15%	58.6 bcf	**8.8 bcf**	184 bcf	**27.6 bcf**	426 bcf	**63.9 bcf**
boe *(1 bcf = 5.7 barrels of oil)*			**1.54 boe**		**4.84 boe**		**11.2 boe**
Risked 'oil in place' * Dowgate estimated recoverable rate of Oil 40%, Gas 65%=							
Recoverable Portland Limestone (Oil)		**2.20m**		**4.94m**		**9.83m**	
Recoverable Triassic Sherwood Sst (Oil)		1.30m		4.28m		10.14m	
Recoverable Triassic Sherwood Sst (Gas) - boe		1.00m		3.15m		7.29m	
Average of Oil or Gas Discovery from Triassic Sherwood Sst		**1.14m**		**3.69m**		**8.65m**	
Total of Oil/Gas Net to UKOG (77.5%)		**2.60m**		**6.71m**		**14.37m**	
Less Development/ Resource Risk 40%		**1.56m**		**4.02m**		**8.62m**	
x $8 Discovery Value per barrel		**$12.5m**		**$32.2m**		**$69.0m**	

Table 7: *IOW Valuation - Dowgate Capital.*

Baxters Copse Valuation

The valuation for Baxter's Copse is based upon Senergy's CPR (July 2014) evaluation of the field and contingent resource numbers. A development/resource risk factor of 40% has been assumed. We have not attributed any value to other oil prospects on the licence, such as Burton Down and Selhurst Park.

Baxters Copse (PEDL233) **m barrels - oil**	**Contingent Resources** *(Senergy CPR)*		
	1C	**2C**	**3C**
100% Gross Interest	3.11m	4.67m	6.23m
Net 50% to UKOG	1.56m	2.34m	3.11m
Less 40% Development/Resource Risk	0.93m	1.40m	1.87m
x $12 Discovery Value per barrel	**$11.21m**	**$16.82m**	**$22.42m**

Table 8: *Baxters Copse Licence Valuation - Dowgate Capital.*

Markwells Wood Valuation

With Markwells Wood believed to be an analogue of the adjacent producing field at Horndean, our valuation for the licence is based upon a comparison with the 1P/2P/3P Contingent Resources at Horndean. The 'Base Case' numbers assume Markwells Wood could be around half the size of Horndean, thus we have added the current 2P Contingent Resource and historic production amount back to 1987 to determine the size of Horndean. We have assumed a 75% chance of a successful horizontal appraisal/producing well being made and a low development/resource factor of 10%, given the comparisons with Horndean and previous discovery of oil at Markwells Wood.

Markwells Wood (PEDL126) **m barrels - oil**	**Contingent Resources (Horndean Comparison)**		
	1P	**2P**	**3P**
	Low Case	**Base Case**	**High Case**
Horndean Previous Production + 1P/2P/3P Resource + Production Dec '13 to date	3.17m	3.30m	3.59m
Unrisked Est. Horndean to Markwells Wood Comparison	25% size 0.79m	50% size 1.66m	100% size 3.59m
75% POS for Horizontal Appraisal/Producing Well	0.59m	1.24m	2.69m
Less 10% Development/Resource Risk	0.53m	1.12m	2.42m
x $12 Discovery Value per barrel	**$6.41m**	**$13.38m**	**$29.09m**

Table 9: *Markwells Wood Licence Valuation - Dowgate Capital.*

Holmwood Valuation

The valuation for Holmwood uses the Prospective Resource estimated by ERC Equipoise in its CPR for Europa Oil and Gas (Holdings) plc, published in May 2012 as a basis to calculate a net risked value. Along with an estimated 'Prospective Resource', the CPR details an estimated 'chance of success' of either 25% or 32% for the discovery of either gas or oil in the Portland Sandstone or Corallian targets.

A high development/resource of 50% has been assumed to reflect the historic planning issues encountered on the licence and the unknown outcome of the current planning inquiry result. Given that the three year old CPR pre-dates the recent discovery in the adjacent licence block at Horse Hill and subsequent technical analysis by Nutech and Schlumberger, ERC Equipoise's resource estimates may significantly understate the true potential of Holmwood.

Holmwood Valuation (PEDL143) **m barrels - oil** **bcf - gas**	**Prospective Resources** (ERC Equipose CPR)		
	Low	**Base**	**High**
Chance of Discovery Success, 32% Portland Sandstone , 25% Corallian			
Portland Sandstone (Oil) **Unrisked** **Risked**	 0.26m 0.08m	 1.24m 0.40m	 2.61m 0.84m
Corallian (Oil) **Unrisked** **Risked**	 0.55m 0.14m	 4.40m 1.10m	 9.90m 2.48m
Portland Sandstone (Gas) **Unrisked** **Risked**	 1.36 bcf 0.44 bcf	 1.42 bcf 0.45 bcf	 2.96 bcf 0.95 bcf
Corallian (Gas) **Unrisked** **Risked**	 1.67 bcf 0.42 bcf	 10.32 bcf 2.58 bcf	 22.75 bcf 5.69 bcf
Risked Total Corallian + Portland Sandstone Equal chance of oil or gas discovery *converted to boe* *(1 bcf = 5.7 barrels of oil)*	0.30m boe	1.76m boe	3.89m boe
Less 50% Development/Resource Risk (100% Gross Interest)	0.15m boe	0.88m boe	1.95m boe
20% Net Interest to UKOG	0.03m boe	0.18m boe	0.39m boe
x $12 Discovery Value per barrel	**$0.35m**	**$2.12m**	**$4.67m**

Table 10: *Holmwood Licence Valuation - Dowgate Capital.*

Horndean Valuation
As Horndean is already a producing field we have applied a higher per barrel oil number of $22m, to represent production value. The 1P, 2P, 3P reserves are those from Senergy in its CPR assessment in July 2014, with a small adjustment to take into account oil produced since these estimates were published.

Horndean (PL211) **m barrels - oil**	**Reserves** (Senergy CPR)		
	1P	**2P**	**3P**
	Low Case	**Base Case**	**High Case**
Horndean (100% gross) *Less production since resource definition*	0.631m	0.770m	1.057m
Net 10% Interest to UKOG	0.063m	0.077m	0.106m
x $22 Production Value per barrel	**$1.39m**	**$1.69m**	**$2.33m**

Table 11: *Horndean Licence Valuation - Dowgate Capital.*

Avington Valuation
Using a similar approach to the valuation of the Horndean producing field, our 'Base Case' number using the 2P resource figures for UKOG's net 5% interest computes to just $69K. Our 'High Case' amounting to $12.1m assumes a higher recovery factor of around 10% if the "right development strategy" can be achieved, as observed by Senergy in its July 2014 CPR.

Lidsey & Brockham Valuations
The small net interests held in Lidsey and Brockham follow a similar valuation approach to UKOG's other producing interests. The 'High Case' number *(Table 12)* assumes higher oil recoveries can be achieved. The 'Base Case' valuation for UKOG's interest in Lidsey and Brockham comes to $267K and $37K respectively.

VALUATION SUMMARY

Summary Valuation	Low Case	Base Case	High Case
Horse Hill (PEDL137/246)	$95.6m	**$353.0m**	$2,633m
Offshore IOW (P1916)	$12.5m	**$32.2m**	$69.0m
Baxters Copse (PEDL233)	$11.2m	**$16.8m**	$22.4m
Markwells Wood (PEDL126)	$6.4m	**$13.4m**	$29.1m
Holmwood (PEDL143)	$0.35m	**$2.12m**	$4.67m
Horndean (PL211)	$1.4m	**$1.69m**	$2.33m
Avington (PEDL070)	$0.04m	**$0.07m**	$12.1m
Lidsey (PL241)	$0.08m	**$0.27m**	$0.46m
Brockham (PL234)	$0.01m	**$0.04m**	$0.32m
Sub Total - Project Value	**$127.6m**	**$419.6m**	**$2,773m**
Add Group Cash	$12.4m	$12.4m	$12.4m
Less est. Debt	$(0.46m)	$(0.46m)	$(0.46m)
Less anticipated drilling & working capital costs over next 18 months	$(22m)	$(18m)	$(14m)
Total $	**$118m**	**$413m**	**$2,769m**
Total £ (£/$1.55)	**£76m**	**£266m**	**£1,786m**
Price per Share *(shares in issue 2,031m)*	**3.7p**	**13.1p**	**87.9p**

Table 12: *Summary Valuation - Dowgate Capital.*

NB: There may be small rounding errors in the above valuation tables when rounded to one or two decimal places.

GLOSSARY

1P Reserves - Equivalent to Proved Reserves: denotes the low estimate or P90 scenario of Reserves.
2P Reserves - Equivalent to the sum of Proved plus Probable Reserves: denotes the best estimate scenario or P50 of Reserves.
3P Reserves - Equivalent to the sum of Proved plus Probable plus Possible Reserves: denotes the high estimate scenario or P10 of Reserves.
P10 or P10 High – a 10% probability that a stated volume will be equalled or exceeded.
P50 or P50 Best – a 50% probability that a stated volume will be equalled or exceeded.
P90 or P90 Low – a 90% probability that a stated volume will be equalled or exceeded.
1C - low estimate of contingent resource.
2C - best estimate of contingent resource.
3C - high estimate of contingent resource.

bcf - 'billion cubic feet', natural gas is measured in cubic feet and typically expressed in terms of bcf.
boe – barrel of oil equivalent, the amount of energy that is equivalent to the amount of energy found in a barrel of crude oil. There are 42 gallons (159 litres) in one barrel of oil, which will contain around 5.8 BCF.
bopd – barrels of oil per day production.
contingent resources - are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.
CPR – competent persons report, a detailed study of resource assets, performed typically by an independent geological expert.
crestal – the top or shallowest part of the oil field.
discovery - a discovery is a petroleum accumulation for which one or several exploratory wells have established through testing, sampling and/or logging the existence of a significant quantity of potentially moveable hydrocarbons.
limestone - a carbonate sedimentary rock predominantly composed of calcite of organic, chemical or detrital origin. Minor amounts of dolomite, chert and clay are common in limestones. Chalk is a form of fine-grained limestone.
oil in place - the quantity of oil or petroleum that is estimated to exist originally in naturally occurring accumulations before any extraction or production.
pos – potential of success, normally expressed as a percentage.
prospect - an area of exploration in which hydrocarbons have been predicted to exist in economic quantity.
resource - the Society of Petroleum engineers ("SPE") defines as all quantities of petroleum, here oil and gas, which are estimated to be initially-in-place; however, some users consider only the estimated recoverable portion to constitute a resource.
reserves - are defined by the SPE as those quantities of petroleum, here oil and gas, which are anticipated to be commercially recovered from known accumulations from a given date forward.
sidetrack - Re-entry of a well from the well's surface location with drilling equipment for the purpose of deviating from the existing well bore to achieve production or well data from an alternative zone or bottom hole location, or to remedy an engineering problem encountered in the existing well bore.

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