

XODUS
ADVISORY



Arreton Discovery, PEDL331, Onshore Isle of Wight

Independent Review – Executive Summary

UK Oil & Gas Investments PLC

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The Directors
UK Oil & Gas Investments PLC
Suite 3B, Princes House
38 Jermyn Street, London, SW1Y 6DN

27 January 2016

Dear Sirs,

Reference: UK Oil & Gas Investments PLC
Independent Review Report as of Wednesday, 27 January 2016
Arreton Discovery, PEDL331, Onshore Isle of Wight

In accordance with your instructions, Xodus Group Ltd. (**Xodus**) has reviewed the Arreton discovery in the recently awarded PEDL331 onshore Isle of Wight (**IoW**) licence.

We were requested by UK Oil & Gas Investments PLC (**UKOG**) to provide an independent evaluation of the Hydrocarbon Initially In Place (**HIIP**) volumes and of the recoverable hydrocarbons expected for the Arreton discovery, as well as for the adjacent Arreton North and Arreton South prospects. We have categorised these volumes in accordance with the 2007 Petroleum Resources Management System prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (**SPE**) and reviewed and jointly sponsored by the World Petroleum Council (**WPC**), the American Association of Petroleum Geologists (**AAPG**) and the Society of Petroleum Evaluation Engineers (**SPEE**).

Recoverable volumes are expressed as gross and net technical resources (both Contingent Resources and Prospective Resources). Gross resources are defined as the total estimated petroleum to be produced from the potential development evaluated with an effective date of 1st January 2016. Net resources are defined as that portion of the gross resources attributable to the interests owned by UKOG.

In conducting this review we have utilised information and interpretations supplied by UKOG, comprising operator information, geological, geophysical, engineering and other data along with various technical reports. We have reviewed the information provided and modified assumptions where we considered this to be appropriate. Site visits were not considered necessary for the purposes of this report.

Standard geological and engineering techniques accepted by the petroleum industry were used in estimating recoverable hydrocarbons. These techniques rely on engineering and geo-scientific interpretation and judgement; hence the resources included in this evaluation are estimates only and should not be construed to be exact quantities. It should be recognised that such estimates of hydrocarbon resources may increase or decrease in future if there are changes to the technical interpretation, economic criteria or regulatory requirements. As far as Xodus is aware, there are no special factors that would affect the operation of the assets and which would require additional information for their proper appraisal.

We acknowledge that this report may be included in its entirety, or portions of this report summarised, in documents prepared by UKOG and its advisers in connection with commercial or financial activities and that such documents, together with this report, may be filed with any stock exchange and other regulatory body and may be published electronically on websites accessible by the public, including a website of UKOG.

EXECUTIVE SUMMARY

UK Oil & Gas Investments PLC (**UKOG**) has a 65% interest in the PEDL331 onshore Isle of Wight licence, which was recently offered in the 14th licence round. The Licence is in the Wessex Basin, which is a proven hydrocarbon system with many producing fields including Wytch Farm. It contains the onshore Arreton undeveloped oil discovery as well as the adjacent Arreton North and Arreton South prospects.

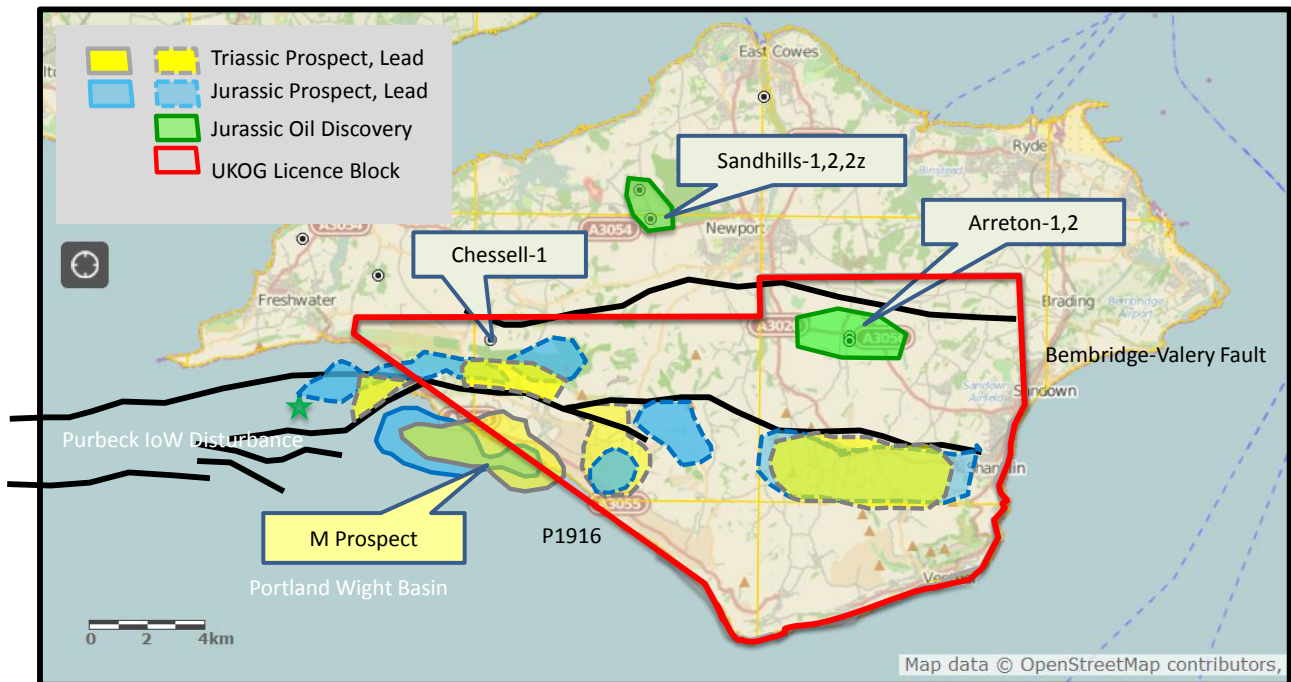


Figure Error! No text of specified style in document..1: Map of Onshore Isle of Wight License

The Arreton-2 well, drilled in 1974, discovered several reservoirs including in the Portland Limestone, the Purbeck Limestone and the Inferior Oolite. Hydrocarbons were encountered in strong oil shows, a test was carried out but no hydrocarbons flowed to surface. The test's perforations coincided with the two sets of casing at the 9 5/8" casing shoe and was conducted with low energy perforation guns. Oil cut mud and water was recovered. The Portland in the well has a gross thickness of 90 ft, has a zone with sandy argillaceous limestone and a lower zone with recrystallised grainstone. The petrophysical interpretation by NuTech Energy Alliance (**Nutech**)¹ shows 78 ft of pay with an average porosity of 16% and water saturation of 35%. The Purbeck Limestone has 20 ft pay with average porosity of 10% and sits on top of the Portland Limestone. The Purbeck and Portland pay sit in one continuous hydrocarbon column to the base of the Portland totalling 111 ft. The Arreton-2 well also encountered a gross Inferior Oolite section with good oil shows over a 191 ft thickness with a net to gross of 66% and with average porosity of 7%.

UKOG performed an interpretation of the available seismic and petrophysical data. Its interpretation of the well results is that a section of pay in the Portland has been missed and that the test results are unreliable. UKOG carried out an assessment of the Stock Tank Oil Initially In Place (**STOIIP**) volumes.

Xodus has reviewed UKOG's seismic interpretation and the underlying Kingdom project, the well data, and related reports. Xodus independently derived the volume estimates assisted by a stochastic simulation software tool, REP, using an approach similar to that used by UKOG.

¹ Arreton-2 evaluation report dated 30 June 2015, project code 24007, NuTech Energy Alliance

Xodus concludes that the approach followed by UKOG to estimate the STOIP is sound and is based on an adequate interpretation of the available data.

The STOIP volume ranges estimated by Xodus are as per Table E.1 below.

Gross STOIP (MMbbl)	Low²	Best	High	Mean
Arreton Main Portland	6.8	21.3	61.6	29.3
Arreton Main Purbeck	4.7	9.2	19.6	11.2
Arreton Main Inferior Oolite	52.0	87.5	137.0	91.7
Arreton North Portland	3.7	22.0	59.9	27.6
Arreton South Portland	14.2	55.2	138.0	67.4
Total STOIP³	144	219	322	227

Table E.1: Xodus STOIP Volume Estimates

Table E.2 and Table E.3 respectively summarise the results of our assessment of the Contingent and Prospective Resources⁴. The 1C, 2C, 3C and Low, Best and High estimate⁵ volumes are reported as gross and net to UKOG and reflect the volume within the licence.

Oil Contingent Resources (MMbbl)	Gross Oil Contingent Resources			Oil Contingent Resources Net to UKOG			Commercial Risk Factor (%)⁶
	1C	2C	3C	1C	2C	3C	
Arreton Main Portland	0.8	2.6	7.8	0.5	1.7	5.0	50%
Arreton Main Purbeck	0.6	1.1	2.5	0.4	0.7	1.6	50%
Arreton Main Inferior Oolite	6.2	10.8	17.6	4.0	7.0	11.4	50%
Total Contingent Resources⁷	9.9	15.7	24.1	6.4	10.2	15.7	

Table E.2: Contingent Resources Oil Volumes

² Low, Best and High refer to the P90, P50 and P10 outcomes respectively in a stochastic calculation of STOIP

³ This is a stochastic summation of the volumes

⁴ 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 Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

⁵ 1C, 2C and 3C in a probabilistic resource size distribution these are the P90 (90% probability), P50, and P10, respectively. Similarly, Low, Best and High Estimate are the P90 (90% probability), P50, and P10, respectively.

⁶ Risk Factor or Commercial Risk Factor for Contingent Resources is the estimated chance, or probability, that the volumes will be commercially extracted.

⁷ This is a stochastic summation of the volumes

Oil Prospective Resources (MMBBL)	Gross Oil Prospective Resources			Oil Prospective Resources Net to UKOG			Geological Risk Factor
	Low	Best	High	Low	Best	High	COS ⁸ (%)
Arreton North Portland	0.5	2.7	7.6	0.3	1.8	4.9	69%
Arreton South Portland	1.7	6.8	17.4	1.1	4.4	11.3	73%
Total Prospective Resources⁷	4.0	10.5	21.6	2.6	6.8	14.0	

Table E.3: Prospective Resources Oil Volumes

Recoverable resources have been estimated by stochastically applying a recovery factor range of 10% (P90) to 15% (P10) to the reservoirs, which Xodus deems to be appropriate for these reservoirs. Next to the oil, associated gas can be recovered from these reservoirs.

Conclusions

Xodus has reviewed the available information on the PEDL331 onshore Isle of Wight licence, specifically the Arreton discovery and Arreton North and South prospects, and concludes that UKOG has performed a reasonable and robust interpretation of the available data. Where deemed necessary, Xodus has amended the UKOG proposed volumes. Xodus believes that the figures in this report accurately reflect the potential on the licence, given the current status of knowledge.

UKOG is still considering the appropriate next steps for the further exploration, appraisal and development of the Arreton discovery and prospects.

Professional Qualifications

Xodus is an independent, international energy consultancy. Established in 2005, the company has 600+ subsurface and surface focused personnel spread across thirteen offices in Aberdeen, Anglesey, Dubai, Edinburgh, Glasgow, The Hague, Houston, Lagos, London, Orkney, Oslo, Perth and Southampton.

The wells and subsurface division specialise in petroleum reservoir engineering, geology and geophysics and petroleum economics. All of these services are supplied under an accredited ISO9001 quality assurance system.

Except for the provision of professional services on a fee basis, Xodus has no commercial arrangement with any person or company involved in the interest that is the subject of this report.

Chris de Goey is Head of Xodus Advisory in London and was responsible for supervising this evaluation. Chris has a broad commercial background in the energy industry. Starting his career in Shell he then joined Accenture where he worked on market entry, organisational, marketing, performance management and operational solutions for IOCs and European utilities. He subsequently took on management roles in venture capital and corporate finance focusing on oil and gas and renewables. For 3 years prior to joining Xodus Chris led an oil and gas evaluation group, assisting banks, private equity and operators with financing due diligence, delivering competent person reports and feasibility studies. Chris has an MSc in Applied Physics from Delft University. He is a member of the Petroleum Exploration Society of Great Britain and the Society of Petroleum Engineers.

⁸ Risk Factor for Prospective Resources is the geological chance of success (or COS), or the probability of discovering hydrocarbons in sufficient quantity for them to be tested to the surface. In addition, a prospect has also a Development/Commercial Risk.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Chris de Goey', with a long horizontal flourish extending to the right.

Chris de Goey

Director Advisory, London, Xodus Group Ltd
For and on behalf of Xodus Group Ltd.