

UK OIL & GAS PLC
("UKOG" or the "Company")

Unaudited results for the six-month period ended 31 March 2020

CHIEF EXECUTIVE'S STATEMENT

I am pleased to present the unaudited results of UK Oil & Gas PLC ("UKOG") for the six-month period ended 31 March 2020.

From a Company perspective the reporting period was dominated by continued operations at our flagship Horse Hill oil field, which has been in stable production of over 300 barrels of oil per day (bopd) for most of the reporting period. We also submitted planning applications for Arretton oil appraisal on the Isle of Wight and Loxley gas appraisal in Surrey, both projects designed to add further proven recoverable resources and potential near-term cash flow to the Company.

The reporting period has, of course, heralded the beginning of a uniquely demanding period for the nation and for our industry. Dealing with Covid-19 and the subsequent collapse of Brent Crude values has been challenging.

I have experienced and survived many oil price downturns, but this is by far the most serious and rapid, and unusually beyond the control of even OPEC, the United States and Russia. The collapse is unprecedented, with Brent crude falling in real terms to levels not seen since the early 1970s or arguably since the late 1940s. Whilst there seems to be signs of Brent recovery, the future remains uncertain. Here at UKOG we have been preparing for the worst but expecting the best. UKOG's glass remains half-full.

Whilst we have no influence over the price of crude oil, we have quickly adapted and played to our strengths. Consequently, the underlying driver of our actions in response to the price collapse was not simply to focus on cost cutting to weather the downturn, but more importantly, to position the company to emerge stronger and with an eye for new opportunities. We believe these will surely present themselves in a financially distressed world.

Fortunately for UKOG, on 12 March 2020, just before the Covid lockdown, Horse Hill was granted full long-term production consent by the Oil and Gas Authority (OGA), enabling us to continue stable production and, crucially, to enter into longer-term more cost effective service contracts. The OGA consent also enables us, at the right time, to allocate net recoverable reserves to the Company, a pre-requisite for future potential debt-based funding when oil prices return to better levels.

Just before the Covid-19 lockdown, the Company also paid the final £1 million deferred consideration to Tellurian Investments LLC to complete the purchase of Magellan Petroleum (UK) Investment Holdings Limited, which was renamed UKOG 137/246 Ltd. As a result, UKOG significantly increased its interest in the producing Horse Hill oil field to a controlling 85.635%. This means we have the lion's share of Horse Hill production revenues.

We have continued to transform our Horse Hill activities from testing operations to fit for purpose stable oil production during the pandemic. Oil production has continued utilising only essential key workers, all of whom operate under strict hygiene and social distancing practices under the Company's Covid-19 policy introduced in early March.

During the period we successfully drilled and completed the HH-2/2z well, which confirmed the presence and extent of the Portland oil accumulation. It would be fair to say that the well has been challenging, particularly under the Covid situation, where access to the necessary kit and specialist personnel has been difficult.

After the initial reported high HH-2z oil rates, significant formation water ingress was observed, requiring the successful installation of a Thermatek plug to isolate the water inflow. It is now clear from the image logs recorded in the well, that both the oil and water flow originated from a series of extensive natural fractures, primarily at the toe of the well, although there are also further natural fractures observed higher up in the well. The plug was initially successful in returning flow to the reported high oil cut, however water cut built up, necessitating the well to be produced intermittently as the water disposal costs outweighed oil revenues.

The HH-2z well is currently shut in for a long duration pressure build up test to re-assess its connected oil volume. Consequently, the company has sought an extension to the current test permission in order to ensure that sufficient data is available to enable the correct forward decisions to be made.

We are reviewing a number of options for the future use of HH-2z, including stimulation to return it into long-term oil production, sidetracking the well to a different subsurface location and possibly converting it into a future water re-injection well to further reduce future operating costs (as foreseen in the Horse Hill field development plan presented to the OGA earlier this year).

On a positive note we also firmed up our plans for the reperforation and recompletion of HH-1. The current completion and perforation scheme is less than optimal for both pump efficiency and oil inflow. Consequently, if successful we remain confident this programme can further improve the well's oil production rate. We currently plan this activity to occur this summer. We should not forget that outside of the Wytch Farm Field, HH-1 is currently the UK onshore's most productive well.

Whilst we started the transition in Horse Hill cost structure from a purely testing phase to expected production in February, it is fair to say that the Brent collapse accelerated this process. To date, via the £1.65 million purchase of rented surface production equipment and other savings, we have seen Horse Hill operating costs significantly reduced by \$11 per barrel (bbl) from the testing phase. Current asset level operating costs, which include crude transportation and refining fees, are approximately \$13/bbl at current production rates. We believe these are likely to be amongst the lowest in the entire UK sector, both onshore and offshore. Further cost savings are ongoing.

As part of the plan to position UKOG for a post Covid world, in June, the Company fully repaid the convertible loan with Riverfort Global Opportunities PCC Limited and YA II PN Ltd, making UKOG debt free. The additional driver for the repayment of the £1.75 million outstanding balance was to eliminate the uncertainty attached to loan note conversion timings and pricing, something the Company believed created a negative influence on the Company's share price. We are possibly seeing some of the benefit of this action in the week prior to this report.

In addition, we raised £4.2 million to provide funding for the above and other key activities, to include the forthcoming HH-1 reperforation and preparations for work at Loxley and follow-up of the Arreton planning application.

I acknowledge the concerns of private investors about 'dilution' of shares in the Company. However, it is our view that, particularly in these financially uncertain times, raising funds from equity remains the most prudent and only feasible way to fund projects that can add substantive growth in the asset value of the company.

Had oil prices remained at their healthy pre-Covid levels, this would have been a different story, as with our current low \$13/bbl operating costs, the Company would have been able to consolidate a healthy cash position, plus debt funding would be a reality. I trust you understand that, at present, we do not live in such a world. We hope and plan for a better Brent price in the not too distant future.

I believe that it is also a sign of confidence in the underlying strength of the company, together with the resultant liquidity of our stock, that has enabled us to raise significant funds during such troubled times. This liquidity is a valuable tool, but rest assured that we will only use this route when it is the best or only way to implement our strategy to grow the value of the company.

Finally, I had hoped to bring news of a positive outcome from yesterday's Surrey County Council's Planning and Regulatory Committee regarding the Loxley gas appraisal project. However, the application was refused by a

narrow 6-5 decision. Unfortunately, the precise reasons for refusal remain unclear, which is less than satisfactory, as was the general conduct and progress of the meeting.

We have severe reservations regarding the validity of the council's decision. The meetings main discussion centred around a highways issue regarding the suitability of the Dunsfold road adjoining the site to accommodate the envisaged traffic flows. However, the County Highway's and Planning Officers supported the application, stating that the submitted traffic mitigation plans would permit safe use of the road and entry and egress from the site.

As I made clear at the planning hearing, UKOG believes Loxley is a material regional resource, which could have made, and could still make, a timely contribution to Surrey and the UK's recovery from the Covid-related economic downturn, something that has affected everyone.

It is particularly disappointing that such a net zero compliant project which could have been used to generate clean hydrogen fuel for the UK has had this setback. Whilst we are obviously disappointed and are considering our position, our current thoughts are that we will likely appeal the decision via the planning inspectorate.

To conclude on a positive note, at the time of writing, Brent continues to stay at \$40/bbl, which is very encouraging. We continue to actively pursue and evaluate new opportunities, both home and abroad, to add near term production revenues for the Company and we will be operating prudently and creatively to enable UKOG to perform at an optimum level.

OPERATIONAL REVIEW

Health, Safety, Environment

There were no Lost Time Incidents, reportable environmental incidents or health issues on any of UKOG's sites during the period or post period.

A minor fire occurred in the engine housing of the BDF28 drilling rig in November 2019 during HH-2/2z drilling operations. The fire was quickly extinguished by site operatives within minutes, without injury.

Post-period there was a brief protester incident at the Horse Hill site on 1 June 2020. Two individuals gained illegal access to the site and were subsequently arrested by the police and charged with aggravated trespass, a criminal offence. The perpetrators were advised by staff and the police that they were also in breach of a High Court Injunction but declined to move. Dependent upon the outcome of any criminal prosecution, the Company is considering whether to seek committal hearings for the individuals for the blatant injunction breach.

Horse Hill Oil Field, PEDL137 and PEDL246 (UKOG 85.64%)

The field and surrounding licence is operated by UKOG's subsidiary company Horse Hill Developments Ltd (HHDL) in which UKOG holds a 77.9% ownership. The Licensees are HHDL (65% interest) and UKOG (137/246) Ltd (35% interest).

Following planning approval for Horse Hill production in September 2019, the key event of the period was the Oil and Gas Authority's (OGA) consent to the Field Development Plan (FDP) in March 2020 and the permission to produce. This milestone allows long-term production from UKOG's flagship asset.

The Horse Hill-1 well (HH-1) continued producing at high rates of over 300 bopd almost continuously during the period. Post period a higher capacity and energy efficient linear rod pump was installed on HH-1, leading to increased production from the Portland interval. As of 29 June 2020, 113,143 bbl in total has been produced from Horse Hill.

Also, operating costs have been reviewed and substantially reduced, including the purchase of the surface facilities to remove the substantial equipment rental costs. Further significant savings were also achieved in oil transportation costs and other services.

The Horse Hill-2z (HH-2z) well was drilled and completed between September and November 2019. During well clean-up, formation water was produced to surface. A water-shut-off intervention was then completed. HH-2z well testing resumed via a combination of flow periods, with downhole pumping via a bespoke electric submersible pump, and pressure build-ups (PBUs) to assess oil volumes connected to the well.

Following initial high oil rates, HH-2z oil rates declined with continuing formation water production. The well is currently shut-in for a long-term PBU test. A number of options are being reviewed for the future use of HH-2z, including stimulation to return it into long-term production, sidetracking the well to a different subsurface location and possibly converting it into a future water re-injection well to implement pressure support and further reduce future operating costs (as foreseen in the Horse Hill FDP). The Company has also sought an extension to the current test permission in order to ensure that sufficient data is available to enable the correct decisions to be made.

Post-period, the Company also plans a significant intervention in HH-1 specifically designed to further improve flow into the wellbore. Together with a full reperforation of the entire Portland section using a different type of perforating gun than prior operations, a new, simpler production tubing completion will be installed. The new completion will permit the downhole pump to be installed below the Portland interval to significantly improve pump efficiency.

Loxley, Broadford Bridge, PEDL234 (UKOG (234) 100%)

UKOG notes with disappointment the refusal of UKOG's Loxley planning application by Surrey County Council on 29 June 2020, despite the recommendation to approve our application by its own planning officers and the permit approval by the Environment Agency on 25 June. UKOG's is considering appealing this planning decision.

The Loxley well is intended to test the crest of the Portland gas accumulation, originally discovered on the neighbouring licence by the Godley Bridge-1 well.

OGA has approved an amendment to the PEDL234 Retention Area work programme such that Loxley-1/1z is to be drilled by December 2021.

In November 2019 UKOG submitted a planning application to West Sussex County Council to extend the existing Broadford Bridge planning approval by 24 months to March 2022.

Arreton, Isle of Wight, PEDL331 (UKOG 95%)

UKOG held a stakeholder exhibition on the Isle of Wight in December 2019. The Arreton planning application was submitted in March 2020 and public consultation is now ongoing. The EA permit application for Arreton will be submitted shortly.

UKOG intends to drill, sidetrack and test an Arreton-3/3z well, which will appraise the Arreton-2 oil discovery made by British Gas in the 1970s. The primary target will be the Portland oil discovery, but the well will also test the underlying Kimmeridge section.

Markwells Wood

Work was completed to restore and re-plant the Markwells Wood well site. UKOG has now relinquished the related PEDL126 licence.

Other Assets

As operator of PEDL143 (UKOG 67.5%), UKOG is reviewing the oil & gas potential of the licence and has surveyed possible well sites. OGA granted a two-year extension of PEDL143 to 30 September 2022.

Stable oil production with low water cut continues from the Horndean oil field in Hampshire (UKOG 10%).

FINANCIAL REVIEW

The operating loss for the six months to 31 March 2019 was £0.77 million compared to £1.56 million for the same period last year. Revenue for the six months saw a reduction from £0.1 million to £0.08 million, which was a result of lower oil price and lower production from the non-operated Horndean oil field. Oil sales from the Horse Hill field were not included in the revenue line but rather netted of exploration and evaluation expenditure. There was a substantial reduction in administrative costs that was primarily driven by a £0.92 million recharge of technical staff to exploration and evaluation assets.

Net cash outflow from operations decreased from £3.44 million to £1.06 million; again, this decrease was driven by the capitalisation of technical staff against exploration and evaluation assets.

Our expenditures on exploration and evaluation assets during the period increased to £7.80 million (2019: £3.98 million), due to the increased activity at the Horse Hill oil field, this activity along with lower a lower oil price, also had a negative effect on the receipts for the sales of test volumes, which decreased from £1.77 million in the six months ending 31 March 2019 to £0.99 million. Offsetting the cash outflows, UKOG raised £2 million this resulted in a net cash outflow of £6.11 million in the current period compared to £5.15 million in the six months ending 31 March 2019. At the end of the reporting period, UKOG has £0.78 million in cash and cash equivalents. After year end it raised a further £4.2 million via the issue of 2,100,000,000 new ordinary shares in the Company.

As a result of the increased expenditure on exploration and evaluation assets, associated with drilling on our Horse Hill oil field, these assets increased to £34.03 million (31 March 2019: £24.58 million). The Company's goodwill increased from £6.29 million to £17.43 million as result of the acquisition the entire share capital of Magellan Petroleum (UK) Investment Holdings Limited for a total consideration of £12 million in cash and UKOG shares which occurred in the second half of our 2019 financial year. It, therefore, was not recognised in the period ending 31 March 2019.

Our borrowings increased from £2.3 million at the end of March 2019 to £5.48 million at the end of March 2020, this was a result of our acquisitions of additional equity stakes in Horse Hill Development Ltd, in the second half of the last financial year, which resulted in the consolidation of the loans owed to its shareholders. Subsequent to the year end we repaid the convertible loan in it entirety from the £4.2 million placing carried out in June 2020.

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Glossary of Terms:

Term	Meaning
°API	A measure of the density of crude oil, as defined by the American Petroleum Institute
bopd	Barrels of oil per day
calcareous	Containing calcium carbonate (limestone)
Contingent Resources	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 are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by their economic status.
core or coring	A drilling technique that involves using a doughnut-shaped drilling bit to capture or "cut" a continuous cylinder-shaped core of undamaged in-situ rock. The core is captured in a steel pipe or "core barrel" above the bit. Core is normally cut in 30 feet lengths, or multiples of 30 feet, and normally with a diameter of 3.5 or 4 inches. Core is taken in petroleum reservoir rocks for detailed laboratory analyses of petrophysical and geomechanical parameters
discovery	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
drawdown	pressure drawdown (ΔP) is defined as the difference between the reservoir pressure and the flowing bottom hole pressure. Drawdown enables fluids to flow from the reservoir into the wellbore. The magnitude of the drawdown is a major controlling factors of a well's production rate
extended well test	a well test, as per the permission granted by the Oil and Gas Authority, with an aggregate flow period duration over all zones of greater than 96 hours
flow test	A flow test or well test involves testing a well by flowing hydrocarbons to the surface, typically through a test separator. Key measured parameters are oil and gas flow rates, downhole pressure and surface pressure. The overall objective is to identify the well's capacity to produce hydrocarbons at a commercial flow rate
limestone	A sedimentary rock predominantly composed of calcite (a crystalline mineral form of calcium carbonate) 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. The Kimmeridge Limestones are effectively chalks being comprised of the remains of calcareous planktonic algae
mmbbl	Million barrels
naturally fractured reservoirs	Fractured reservoirs contain cracks or surface of breakage within rock; fractures can enhance <u>permeability</u> of rocks greatly by connecting pores together; naturally fractured reservoirs have been created over geological time by nature, not man-made via hydraulic fracturing
oil in place (OIP)	The quantity of oil or petroleum that is estimated to exist originally in naturally occurring accumulations in the ground before any extraction or production
P50 (best estimate) prospect	a 50% probability that a stated volume will be equaled or exceeded A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target
Reserves	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates (i.e. Proven, Probable and Possible) and may be sub-classified based on project maturity and/or characterised by development and production status
sandstone	A clastic sedimentary rock whose grains are predominantly sand-sized. The term is commonly used to imply consolidated sand or a rock made of predominantly quartz sand
shale	A fissile rock that is formed by the consolidation of clay, mud, or silt particles, and that has a finely stratified or laminated structure. Certain shales, such as those of the Kimmeridge, often contain a significant proportion of organic material, which when subject to increasing temperature and pressure over geological time transform into petroleum (known as petroleum "source rocks")
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.

Consolidated Income Statement (Unaudited)
for the six months ended 31 March 2020

	Notes	6 months 31 March 2020 (Unaudited) £'000	6 months 31 March 2019 (Unaudited) £'000
Revenue		88	103
Cost of sales		(40)	(43)
Gross profit		48	60
Operating expenses			
Administrative expenses		(715)	(1,560)
Foreign exchange gains		(17)	(19)
Depletion & impairment expense		(87)	(41)
Share-based payment expense		-	-
Other income		-	4
Operating (loss)		(771)	(1,555)
Interest expense		-	(144)
Finance costs		(130)	(18)
(Loss) from continuing activities before taxation		(902)	(1,717)
Taxation			-
Net (Loss) after tax from continuing operations		(902)	(1,717)
(Loss) for the 6 months attributable to:			
Owners of the parent			(1,599)
Non-controlling interest			(118)
		(902)	(1,717)
Other comprehensive loss			
Transfer to income statement		-	-
Other comprehensive loss net of taxation		(902)	(1,717)
(Loss) per share		Pence	Pence
Basic and diluted	2	(0.01)	(0.04)

Consolidated Statement of Financial Position (Unaudited)
as at 31 March 2020

Balance at 1 October 2018	12,141	75,799	1,590	(53,393)	36,137	651	36,788
Loss for the year	-	-	-	(5,394)	(5,394)	-	(5,394)
Movement on reserves re acquisition	-	-	-	(838)	(838)	(538)	(1,376)
Total comprehensive income	-	-	-	(6,232)	(6,232)	(538)	(6,770)
Issue of shares	109	10,183	-	-	10,292	-	10,292
Cost of share issue	-	(209)	-	-	(209)	-	(209)
Share option exercised	-	-	-	-	-	-	-
Share option expired	-	-	(472)	472	-	-	-
Share based payments	-	-	693	-	693	-	693
Total transactions with owners	109	9,974	221	(5,760)	4,544	(538)	4,006
Balance at 30 September 2019	12,250	85,773	1,811	(59,153)	40,681	113	40,794
Loss for the period	-	-	-	(902)	(902)	-	(902)
Total comprehensive income	-	-	-	-	-	-	-
Issue of shares	116	7,983	-	-	8,099	-	8,099
Cost of share issue	-	(132)	-	-	(132)	-	(132)
Total transactions with owners	116	7,851	-	(902)	7,065	-	7,065
Balance at 31 March 2020	12,366	93,625	1,811	(60,034)	47,746	113	47,859

**Statement of Cash Flows (Unaudited)
for the six months ended 31 March 2020**

	Notes	6 months 31 March 2020 (Unaudited) £'000	6 months 31 March 2019 (Unaudited) £'000
Cash flows from operating activities			
Loss from operations		(771)	(1,559)
Depletion & impairment		87	41
Cash effect of provision release		-	(786)
Decrease / (increase) in inventories		-	4
Decrease / (increase) in trade and other receivables		(347)	97
(Decrease) / increase in trade and other payables		(27)	(1,232)
Net cash (outflow) from operating activities		(1,058)	(3,436)
Cash flows from investing activities			
Expenditures on exploration & evaluation assets		(7,803)	(3,975)
Receipts from sale of test volumes		995	1,773
Expenditures on oil & gas properties		0	(1)
Expenditures on property, plant & equipment		(113)	(14)
Net cash flows on acquisition of share in subsidiary		-	652
Net cash (outflow) from investing activities		(6,922)	(1,565)

Cash flows from financing activities

Proceeds from issue of share capital	2,000	-
Interest expense on minority interest loans	(132)	(144)
Net cash inflow from financing activities	1,868	(144)
Net change in cash and cash equivalents	(6,112)	(5,145)
Cash and cash equivalents at the beginning of the period	6,892	12,427
Cash and cash equivalents at the end of the period	780	7,282

Notes to the half-yearly results

1. Basis of preparation

As permitted by IAS 34, 'Interim Financial Reporting' has not been applied to these half-yearly results. The financial information of the Company for the six months ended 31 March 2020 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("adopted IFRS") and are in accordance with IFRS as issued by the IASB. The condensed interim financial information has been prepared using the accounting policies which will be applied in the Company's statutory financial statements for the period ending 30 September 2020.

The financial information shown in this publication is unaudited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The comparative figures for the financial year ended 30 September 2019 have been derived from the statutory accounts for 30 September 2019. The statutory accounts have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified and did not contain statements under the section 498(2) or 498(3) of the Companies Act 2006.

2. (Loss) per share

The calculation of the basic and diluted (loss) per share is based upon

Group	6 months 31 March 2019 (Unaudited) £'000	6 months 31 March 2018 (Unaudited) £'000
	(Loss) attributable to ordinary shareholders	(902)
	Number	Number
Weighted average number of ordinary shares for calculating basic loss per share	7,095,087,349	4,157,963,641
	Pence	Pence
Basic and diluted loss per share	(0.01)	(0.04)

3. Availability of the Interim Report

Copies of the report will be available from the Company's registered office and also from the Company's website www.ukogplc.com

The information contained within this announcement is deemed by the Company to constitute inside information under the Market Abuse Regulation (EU) No. 596/2014.

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