RNS Number : 7248Q
UK Oil & Gas PLC
30 June 2022

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

Unaudited results for the six-month period ended 31 March 2022

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 2022.

This interim period was dominated by behind-the-scenes activity aimed toward securing the Company's recently announced project at Portland Port in Dorset, which represents a significant source of possible future value for the Company. As announced post period in late May 2022, the Company's wholly owned subsidiary, UK Energy Storage Ltd ("UKEn"), has signed an Agreement to Lease with Portland Port Limited covering two sites at the former Royal Navy port, with the intent to develop a planned integrated energy hub, centred around hydrogen-ready gas storage and a future green hydrogen generation capability. This project is subject to new planning consent and securing necessary development finance, but it promises to be the biggest project the Company has been involved with, in terms of scope and investment.

UKEn's development will build further upon a project by Portland Gas Storage Ltd, who were granted planning consent by Dorset County Council in 2008, to create approximately 43 billion ft^3 ("bcf") of underground salt cavern storage at the port. That permission of 14 years ago coincided with the global credit crunch of that time, which led to the project being abandoned in tandem with investor appetite temporarily diminishing across the world's capital markets. In today's environment of buoyant markets and the need for increased domestic gas security this project firmly reinstates itself as one of significant potential on a national scale and we hope that this will prove to be a material value catalyst for UKOG's shareholders.

In short, we hope to build upon that ambition by developing an integrated energy hub, centred around hydrogen-ready gas storage and a future green hydrogen generation capability.

Following the Company's announcement, we were delighted to receive a very positive letter from the Secretary of State ("SoS") for Business, Energy and Industrial Strategy, the Rt. Hon. Kwasi Kwarteng, MP, warmly welcoming our project as part of the government's British Energy Security Strategy. We have been invited to meet and discuss our plans further with the SoS' advisors.

Since the announcement the Company has held productive talks with a number of key infrastructure stakeholders and potential strategic partners.

The Company has been advised by its planning consultants, Zetland Ltd, that the scale and nature of the energy hub development is expected to qualify as a Nationally Significant Infrastructure Project. This would require planning consent to be sought via an application for a Development Consent Order directly to the Planning Inspectorate. Ultimate authority over the decision on whether to issue a DCO would rest with the SoS for Levelling Up, Housing and Communities.

Portland Port is ideally situated for the construction of large salt caverns as it overlies a thick, high quality halite section of Triassic age. Halite deposits with sufficient thickness to accommodate significant caverns are confined to only three areas of the UK and are found in Cheshire, the northeast Yorkshire coast, as well as Dorset.

It's hard to recall a time in recent history in which the critical importance of energy security and the resilience of the UK energy system has been so much in the public and governmental eye. This infrastructure project is fully in keeping with the government's new British Energy Security and Hydrogen Strategies and National Grid's 2021 Future Energy Scenarios, both of which materially strengthen the UK energy system's resilience to supply and demand shocks, and could provide the foundations for a potentially significant and strategic element of the future green hydrogen economy.

The project gives us the opportunity to advance pilot scale green hydrogen production and storage, together with hydrogen battery concept investigation. The Company plans to develop future potential to supply renewable electricity for green hydrogen production at the site via an over-the-horizon floating wind farm.

Having now successfully secured the project, the Company intends to complete further detailed engineering and commercial studies in conjunction with the preparation and submission of a detailed planning application.

Loxley, Broadford Bridge, PEDL234

It was with great pleasure that we learned that Stuart Andrew MP, Minister for Housing acting for the SoS for Levelling Up, Housing and Communities, had upheld our appeal against Surrey County Council's refusal of planning for the Loxley gas project. With both planning and environmental consents in hand the Loxley gas project can now, finally, go ahead.

Our wholly-owned Loxley conventional gas and hydrogen feedstock project was refused twice by Surrey County Council in June and November 2020 by a slim 6-5 majority, before a virtual public inquiry was held in August 2021.

This backing for Loxley's gas as a secure, sustainable energy source with a far lower pre-combustion carbon footprint than imports, makes strategic, economic and environmental good sense. We look forward to moving the Loxley project forwards and to working constructively with the local community.

Nevertheless, it was, perhaps, predictable but still extremely disappointing to read unsubstantiated comments from Jeremy Hunt, the MP for the Loxley/Dunsfold area in South West Surrey. He claimed that Loxley's natural gas had no part in the UK's future energy supply and that the development would cause environmental damage. His assertions were incorrect, as I pointed out in correspondence to him. He disregarded the scenarios envisaged in the Prime Minister's British Energy Security Strategy, the UK Hydrogen Strategy, National Grid's Future Energy Scenarios and CCC forecasts, where natural gas plays a significant role in the energy transition as a feedstock for reforming into blue hydrogen.

It is a matter of public record that the Environment Agency ("EA") granted UKOG a full environmental permit covering all aspects of the proposed Loxley operation in June 2020. UKOG acts in obeyance of all environmental rules and regulations and can cite an excellent compliance record in all such regulatory areas.

Within the same licence, the Company's planning permission extension application to West Sussex County Council's Planning Committee for its Broadford Bridge-1/1z Kimmeridge oil discovery was approved post period.

Turkey, Resan Licence

Much of our focus in Turkey has been upon the acquisition, processing and interpretation of the new seismic data, following the operator Aladdin Middle East's decision in August 2021 to temporarily halt drilling of the proposed Basur-3 mechanical sidetrack until new seismic over the target area was acquired. UKOG has a 50% non-operating working interest in the 305 km² Resan licence.

The phase 1 2D seismic programme and geological mapping have now been completed and demonstrate that the Basur closure, within which Basur-1 ("B-1") is reported to have recovered 500 barrels of light 35˚API oil to surface over a 6-hour period during testing in the 1960s, looks to extend further to the west than originally mapped, with a possible culmination up to 200m shallower than at B-1. The new seismic also clearly demonstrates the presence of a major backthrust fault to the south of Basur-3 ("B-3"), something not evident on the original legacy seismic and explains why the reservoir section was not encountered in the B-3 well.

It was always UKOG's view that, due to the fault uncertainty, if a well were not targeted to directly intersect the reservoir at the exact B-1 subsurface location, the possibility of coming in lower than prognosis remained material. This is why we insisted on a sidetrack contingency as part of the operation.

Consideration is, therefore, being given by the JV to the acquisition of a small infill phase 2 seismic programme to define a further Basur drilling location up-dip to the northwest of B-1 and B-3. This location would be designed to offer the ability to test the Garzan and Mardin reservoirs within the Basur structure via a less complex vertical well, a potentially lower risk lower cost option than the envisaged B-3 sidetrack ("B-3S").

Whilst B-3S still remains a solid option, the new seismic clearly indicates that it would require a longer and higher angle trajectory than previously envisaged, involving drilling through the major backthrust fault at a high angle within potentially heavily fractured limestone rocks. This situation potentially adds to the risks of losing mud circulation and becoming stuck in hole. Whilst this can be mitigated against by detailed operational planning, and the correct rig and equipment choices, it can increase the drilling risk, complexity and cost.

Further geological information obtained from legacy wells in the Resan area indicated that, whilst oil shows were encountered at similar levels to B-1, questions arose as to reservoir quality and the increased chance of fractures acting as conduits for underlying formation water ingress. Consequently, at this time, plans for a Resan-6 ("R-6") well have been put on hold and the partnership will focus on the Basur area, where oil has flowed to surface at reported good rates.

Consequently, the joint venture will carefully consider its next step in the Resan Licence to ensure we maximise our chances for a successful outcome.

Horse Hill, PEDL137 and PEDL246 (UKOG 85.64%)
We recently had positive news at the Horse Hill oil field, which is operated by UKOG's subsidiary company Horse Hill Developments Ltd. The EA granted a full Production Permit, enabling production and water re-injection operations, incineration of waste gas, maintenance/workovers and the drilling of further development wells. We first made this application in September 2019, 31 months prior the permit.

In addition, the North Sea Transition Authority ("NSTA"), formerly the Oil and Gas Authority, granted consent post period for the conversion of the Horse Hill-2z into a saline water reinjection well. NSTA also approved the related Horse Hill Field Development Plan Addendum.

With both the EA and NSTA permissions in hand, UKOG can now further expedite its plans for produced saline formation water reinjection at Horse Hill during 2022, which, if implemented, would remove the need for costly transportation and disposal of produced water at distant third-party sites. In conjunction technical planning for further development drilling will now progress.

OPERATIONAL REVIEW

Health, Safety and Environment
Once again there were no Lost Time Incidents, reportable environmental incidents or health issues on any of UKOG's sites during the period or post period. The operational team maintain focus on health, safety, and environmental performance as it is our number one priority.

Modifications at the Horse Hill site are continuing in order to comply with The Control of Major Accident Hazards regulations (lower tier), as well as other regulations. Liaison continues ongoing with the Health and Safety Executive and the EA to ensure the Horse Hill site satisfies these regulations.

Post period the EA granted a full production permit for the Horse Hill field.

Portland Energy-Hub
UKEn has signed an Agreement to Lease with Portland Port Limited ("PPL") covering two sites at the former Royal Navy port in Dorset, with the intent to develop, subject to new planning consent and securing necessary development finance, a planned integrated Energy-Hub, centred around hydrogen-ready gas storage and a future green hydrogen generation capability.

UKEn's planned Energy-Hub development concept seeks to reinvigorate and build further upon a prior unrealised project by Portland Gas Storage Ltd, granted planning consent by Dorset County Council in 2008, to situate approximately 43 bcf (1.2 billion m^3 or "bcm") of underground salt cavern storage beneath PPL's land.

The planned new Energy-Hub is envisaged to include the following key elements:

· A strategically located hydrogen-ready Energy-Hub within an active harbour site
· Construction of up to 43 bcf (1.2 bcm) of hydrogen-ready Triassic salt cavern storage. For context, if this capacity is ultimately achieved it would materially increase the UK's current reported 61 bcf (1.7 bcm) total working underground gas storage capacity. The envisaged hydrogen-ready build also means the site could hold either hydrogen or natural gas from operational inception
· Salt cavern storage would be linked to the national pipeline transmission system ("NTS") via a new planned hydrogen-ready pipeline. As per the prior 2008 project, the new

pipeline would be designed with a nameplate capacity up to 1 bcf/day (28 million m^3/day). For context, this throughput capacity, if achieved, would equate to approximately one seventh (14%) of current estimated UK daily natural gas consumption

· Pilot scale green hydrogen production and storage, together with hydrogen battery concept investigation. The Company plans to develop future potential to supply renewable electricity for green hydrogen production at the site via an over-the-horizon floating wind farm

· Addition of a new planned LNG import facility in the port, designed to be used as a possible feedstock for blue hydrogen within the proposed UK Southern Pathway Hydrogen Hub and to help optimise cavern-fill cycle times and maximise revenues during the energy transition. Our ambition is for LNG to be sourced from UK allies/secure suppliers (e.g. USA and Qatar)

· Development planned to be 'future-proofed' by engineering designed to transition seamlessly into green hydrogen production, import/export and storage as the 'hydrogen economy' evolves

· Local high geothermal heat gradient to be investigated for possible local heat network and/or to power green hydrogen production

· The Company and PPL will also jointly investigate the potential for using future green hydrogen generation at the port to directly fuel future hydrogen propelled ships. The possibility of future green hydrogen export by ship will also be explored

· The Triassic Sherwood sandstones lying beneath the salt sequence also offer carbon capture and storage upside potential.

Turkey, Resan Licence (UKOG 50%)

The Basur-Resan anticline containing the Basur-1 oil discovery is located within the surrounding 305 km^2 Resan M47-b1, b2 licence, in which UKOG's wholly owned subsidiary, UKOG Turkey Ltd, holds a 50% non-operated interest.

A Resan Licence Operating Committee meeting was held in Ankara, the first face to face meeting permitted since the Covid pandemic, approved the 2022 work programme and budget for seismic acquisition and drilling.

Further to AME's August 2021 decision to temporarily halt drilling of the proposed B-3 mechanical sidetrack until new seismic over the target area was acquired, Viking Geophysical Services completed acquisition of phase 1 of the 2D seismic programme comprising 55 km covering the priority B-3S and R-6 proposed well trajectories.
Abu Dhabi based BGP completed the phase 1 seismic processing. Existing legacy seismic data has been reprocessed and pre-stack depth migration processing of the new data was also completed.
The Company's geophysicist was present during acquisition operations and provided oversight of the acquisition and processing.

Geological mapping utilising the new PSDM data has been completed and revised drilling prognoses have been prepared. These are being used to fine tune operational planning for B-3S and for aless complex vertical B-4 well, designed to test the culmination of the Basur end of the Basur-Resan anticline (i.e., where the objective section is closest to the surface).
A rig tender process was conducted and contractor selected, although drilling slots in Turkey have likely extended further into late summer/early autumn 2022.

Given the new seismic indicates B-3S requires a longer and higher angle trajectory than previously envisaged, the joint venture is considering the merits and potential cost savings of drilling the simpler B-4 before the more complex B-3S. It is prudently considered a small amount of further infill 2D seismic may be acquired to de-risk an optimum subsurface B-4 target and corresponding surface site location to support the lowest risk and complexity drilling path. The Company is now in the process of evaluating well costs, technical risks and final operator recommendations in this respect before confirming its position. Further prospectivity in the licence has also been identified.

In the interests of maximising cost efficiencies, plans have been implemented for surplus UKOG-owned casing to be used during drilling, thus reducing UKOG's net costs.

During our Ankara visit, it was confirmed that AME and the Company's bid for new licences in last year's Turkish mini-licence round was unsuccessful. The mini licence round attracted several other bidders including the Turkish national oil company TPAO. Although disappointing given the work programme offered, the bid was ancillary to the Company's focus of appraising Basur-Resan.

The Company continues to look for additional projects in Turkey and has reviewed a further new opportunity to the southeast of our Resan licence. This contains an interesting and potentially material undrilled anticlinal feature analogous to both East Sadak and Basur-Resan.

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 has 77.9% ownership. The Licensees are HHDL (65% interest) and UKOG (137/246) Ltd (35% interest).

The NSTA granted consent post period for the conversion of the Horse Hill-2z into a saline water reinjection well. NSTA also approved the related Horse Hill Field Development Plan Addendum. With both the EA and NSTA permissions in hand, UKOG can now further expedite its plans for produced saline formation water reinjection at Horse Hill during 2022, which, if implemented, would remove the need for costly transportation and disposal of produced water at distant third-party sites.

Further infill development of both Portland (HH-3 well) and Kimmeridge (HH-4 well) offer significant upside for the Horse Hill field. Technical planning for future infill drilling will now progress.

Planned shutdowns were successfully completed to install new surface production facilities in line with requirements under the Control of Major Accident Hazards (COMAH) Regulations. In addition, a new more efficient gas flare was installed and commissioned successfully at Horse Hill.

As of end-May 171,000 bbl of Brent quality crude had been produced and exported from the Kimmeridge and Portland pools. Recent Brent crude prices of over $120/bbl have helped operational cash flow from the field.

The Company announced the signing of a Heads of Terms with geothermal technology specialists Ceraphi to enter into a joint venture agreement to develop part of the Horse Hill site into a geothermal energy hub (GeoHub). The GeoHub, currently at a conceptual stage, is targeted to generate and supply more than 200,000 MWh per year of continuous baseload, primarily as heat energy. The project's first phase would aim to supply significant industrial end-users in the locality with 100% green heating and cooling plus ancillary green electricity and/or hydrogen. Concept work continues to move forward on this project including positive discussions with potential energy offtakers.

NSTA granted a one-year extension to the remaining deadline for the PEDL137 Retention Area work programme.

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

Following Surrey County Council's ("SCC") refusal of planning consent for UKOG's Loxley conventional gas and hydrogen feedstock project and UKOG's appeal to the Planning Inspectorate, the Planning Inspectorate advised that the Secretary of State ("SoS") had recovered the appeal.

The Planning Inspectorate's report recommending the appeal by granted was submitted to the SoS in March and post period the final appeal determination by the SoS granted UKOG's appeal, subject to conditions. With both planning and environmental consents in hand the Loxley gas project can now finally proceed ahead.

The Company's planning permission extension application to West Sussex County Council's Planning Committee for its Broadford Bridge-1/1z Kimmeridge oil discovery was approved post period.

Arreton, Isle of Wight, PEDL331 (UKOG 95%)
The Company decided not to appeal the decision by the Isle of Wight Council to refuse UKOG's planning application for the appraisal drilling and flow testing of the Arreton oil discovery. The Company has subsequently relinquished the associated PEDL331 licence.

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

UKOG is actively reviewing geothermal and energy storage opportunities onshore UK with potential collaborative partners with further advancement in these developing areas anticipated moving forward.

FINANCIAL REVIEW

The operating loss for the six months to 31 March 2022 was £1.29 million compared to £1.01 million for the same period last year. Revenue for the six months saw an increase from £0.72 million to £0.91 million, which was a result of production of Horse Hill field and increased Brent crude prices.

Net cash outflow from operations increased from £0.96 million to £1.39 million; this increase was driven by working capital movements and lower administrative costs in the comparative period, which reflected the impact of interim salary cuts effective during that time.

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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
bbl	Barrels
bopd	Barrels of oil per day
calcareous	Containing calcium carbonate (limestone)
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
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
prospect	A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target
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
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 2022

	6 months 31 March 2022 (Unaudited) £'000	**6 months 31 March 2021 (Unaudited) £'000**
Revenue	911	721
Depletion, Depreciation and Amortisation	(268)	(273)
Other Cost of sales	(408)	(544)
Gross profit / (loss)	**235**	**(96)**
Operating expenses		
Administrative expenses	(1,402)	(915)
Foreign exchange losses	(119)	(17)
Other income	-	1
Operating loss	**(1,286)**	**(1,010)**
Finance costs	(70)	(12)
Loss before taxation	**(1,356)**	**(1,021)**
Taxation	-	-
Retained loss for the period	**(1,356)**	**(1,021)**
Retained loss attributable to:		
Owners of the parent	(1,344)	(1,021)
Non-controlling interest	(12)	-
	(1,356)	**(1,021)**

There are no other comprehensive income or expenses during the two reported periods to disclose.

All operations are continuing.

Earnings per share

		Pence	Pence
Basic and diluted	2	(0.01)	(0.01)

Consolidated Statement of Financial Position (Unaudited)
as at 31 March 2022

	31 March 2022 (Unaudited) £'000	31 March 2021 (Unaudited) £'000
Assets		
Non-current assets		
Exploration & evaluation assets	31,310	25,594
Oil & Gas properties	5,506	6,771
Decommissioning asset	-	285
Property, Plant & Equipment	1,607	1,772
Total non-current assets	**38,423**	**38,544**
Current assets		
Inventory	1	1
Trade and other receivables	750	2,470
Cash and cash equivalents	2,325	1,944
Total current assets	3,076	4,418
Total Assets	**41,499**	**42,962**
Trade and other payables	(821)	(3,271)
Borrowings	(3,092)	(3,086)
Total current liabilities	**(3,913)**	**(6,356)**
Provisions	(1,442)	(1,031)
Non-current Liabilities	**(1,442)**	**(1,031)**
Total liabilities	**(5,355)**	**(7,388)**
Net Assets	**36,144**	**35,574**
Shareholders' Equity		
Share capital	13,208	12,879
Share premium account	107,097	102,058
Share-based payment reserve	2,056	1,811
Accumulated losses	(85,927)	(81,287)
	36,434	35,461
Non-controlling interest	(290)	113
Total shareholders' equity	**36,144**	**35,574**

Statement of Cash Flows (Unaudited)
for the six months ended 31 March 2022

	6 months 31 March 2022 (Unaudited) £'000	6 months 31 March 2021 (Unaudited) £'000
Cash flows from operating activities		
Loss from operations	(1,286)	(1,010)
Depletion & impairment	268	273
Decrease / (increase) in inventories	-	1
Decrease / (increase) in trade and other receivables	(122)	(943)
(Decrease) / increase in trade and other payables	(248)	720
Net cash outflow from operating activities	**(1,388)**	**(961)**
Cash flows from investing activities		
Expenditures on exploration & evaluation assets	(890)	(345)
Expenditures on oil & gas properties	(122)	-
Expenditures on property, plant & equipment	(2)	(550)
Net cash outflow from investing activities	**(1,014)**	**(895)**
Cash flows from financing activities		
Proceeds from issue of share capital	-	2,310
Interest expense on minority interest loans	-	(144)
Net cash inflow from financing activities	**-**	**2,166**
Net change in cash and cash equivalents	**(2,402)**	**310**
Cash and cash equivalents at the beginning of the period	4,727	1,634
Cash and cash equivalents at the end of the period	**2,325**	**1,944**

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 2022 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 2022.

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. Comparative figures for the financial year ended 30 September 2021 have been derived from the statutory accounts for 30 September 2021. 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

	6 months 31 March 2022 (Unaudited)	**6 months 31 March 2021 (Unaudited)**
Group	**£'000**	**£'000**
(Loss) attributable to ordinary shareholders	(1,344)	(1,021)
	Number	**Number**
Weighted average number of ordinary shares for calculating basic loss per share	16,239,233,251	7,095,087,349
	Pence	**Pence**
Basic and diluted loss per share	(0.01)	(0.01)

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 to constitute inside information as stipulated under the retained EU law version of the Market Abuse Regulation (EU) No. 596/2014 (the "UK MAR") which is part of UK law by virtue of the European Union (Withdrawal) Act 2018. The information is disclosed in accordance with the Company's obligations under Article 17 of the UK MAR. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

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