

Egdon Resources

Shale activity on the rise

Outlook

Oil & gas

Egdon Resources retains several value catalysts over the course of 2017/2018; these encompass the company's conventional as well as unconventional asset portfolio. Key catalysts include exploration and appraisal at Springs Road, Holmwood, Resolution, Biscathorpe, and North Kelsey as well as Wressle development. Capital commitments are being kept to a minimum through existing cost-carry arrangements and planned farm-outs. Planning consent approvals continue to hinder the pace of activity; however, central government appears to be supportive of unconventional gas development, attracting sector investment from the likes of Total, Centrica and Ineos. Our Egdon valuation has increased slightly to 21.5p/share risked conventional value and 26.0p/share for indicative unconventional upside potential.

Year end	Revenue (£m)	PBT* (£m)	EBITDA (£m)	Net cash (£m)	Capex (£m)
07/15	2.1	(4.5)	(4.0)	5.2	(3.3)
07/16	1.6	(2.7)	(0.7)	2.7	(2.4)
07/17e	1.2	(1.9)	(0.9)	4.8	(1.7)
07/18e	2.5	(1.3)	0.2	2.0	(3.0)

Note: *PBT is normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Five key conventional projects in 2017/2018

Egdon is investing in five key conventional projects in 2017/2018: Wressle field development, Holmwood and North Kelsey exploration, as well as appraisal of Resolution and Biscathorpe. Capital commitments are being kept to a minimum with Egdon's net capital budget for 2018 estimated at £3m, subject to completion of farm-outs and receipt of government approvals. Holmwood in particular has attracted recent industry interest after further Weald Basin (Kimmeridge limestones) exploration success. The addition of Fiskerton Airfield to the company's asset base, announced recently, is a small positive adding c \$0.5m to core NAV.

Unconventional: From planning to exploration

Egdon's unconventional portfolio, albeit still in the exploratory stage, remains a key part of the company's investment story with a total holding of over 200,000 net shale prospective acres. 2017 should see an increase in physical activity with exploration results from Springs Road and a potential flow test at Cuadrilla's Preston New Road. Valuation of Egdon's unconventional licence position is subjective at this point given uncertainties that exist around planning timelines, well economics and play sweet spots. We expect reduced uncertainty in relation to UK shale commerciality and well economics over the course of 2017/2018.

Valuation: Prices and politics weigh on share price

Our valuation consists of a core (2P) valuation of 3.5p/share, 18.0p/share for risked exploration and appraisal (\$70/bbl long-term Brent) and indicative shale upside of 26.0p/share. Market valuation remains affected by political uncertainty and spot oil price volatility – NAV sensitivity to oil price is included within this note.

17 July 2017

Price 7.38p

Market cap £19m

US\$1.3/£

Net cash (£m) at January 2017 6.8

Shares in issue 259.4m

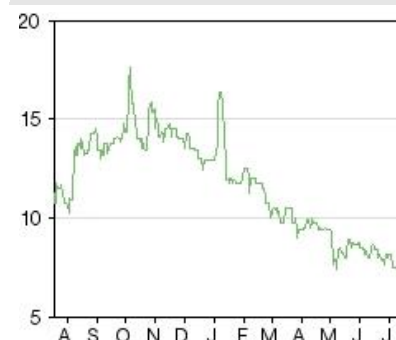
Free float 51%

Code EDR

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (14.5) (24.4) (32.7)

Rel (local) (13.2) (24.8) (39.9)

52-week high/low 17.6p 7.2p

Business description

Egdon Resources is an AIM-listed onshore oil and gas exploration company. The group has conventional and unconventional assets in the UK and France.

Next event

Interim results Q317

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research client of Edison
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Investment summary

Company description: Exploitation of proven basins

Egdon Resources is an independent E&P focused on oil and gas exploration and exploitation across proven basins in the UK, targeting a mix of conventional and unconventional resources. The company is debt-free and benefits from carried interests across a number of its licence blocks. Egdon is looking to grow its unconventional resource exposure in northern England, add reserves and resources through active drilling and maximise returns from its existing production portfolio through selective investment.

Valuation: Acreage-based valuation for unconventional

Our Egdon valuation is constructed of a risked net asset value for the company's conventional asset portfolio and we also include an indicative valuation for the company's unconventional acreage based on a \$/acre multiple. Our conventional asset core value stands at 3.5p/share (including net cash) and we include 18.0p/share for risked exploration. Our indicative shale valuation stands at 26.0p/share.

Financials: Unleveraged UK shale play

Egdon had £6.8m of cash and no debt as of 31 January 2016. Operating cash flow is expected to increase on delivery of first oil from Wressle, which we now expect in 2018. Egdon continues to invest in the company's unconventional asset base, while keeping risk capital to a minimum through existing cost-carry arrangements and farm-outs.

Sensitivities: Shale moving from planning phase to exploration

Key sensitivities for Egdon, other than commodity price, include the timing and duration of planning processes and sources of finance for upcoming exploration and appraisal. Planning processes are exceptionally hard to predict, and there has been recent history of projects being held up through judicial review processes and planning objections. It is important to note that, despite delays, a number of conventional and unconventional projects have been approved to proceed, including Cuadrilla's unconventional exploration activity in Lancashire and initial exploratory drilling at Springs Road. With regard to funding options, Egdon continues to farm down licences swapping equity interest for cost carries on work programmes. Cost of capital across the small-cap E&P sector remains high with farm-in partners requiring c 20% risked returns and equity issues being conducted at significant discounts to NAV. We assume Egdon is diluted by up to 50% for unfunded exploration assets in our valuation. We note that our conventional asset valuation (including risked exploration and appraisal) is leveraged to oil price and our base case of 21.5p/share is predicated on a long-term oil price of \$70/bbl Brent. A reduction in oil price assumption to \$50/bbl Brent would reduce this to 16.9p/share; direct oil price exposure is reduced by gas assets such as Resolution exploration risked value within the asset mix.

Company description: Egdon Resources

Egdon Resources is an AIM-listed, independent E&P focused on conventional and unconventional oil and gas exploration, development and production in the UK. Egdon currently produces c 100b/d in the UK, with the group's current focus on appraisal of existing discoveries and low-risk conventional exploration. Unconventional exposure is through over 200,000 net acres of prospective shale acreage in the East Midlands, Bowland Basin and Cleveland Basin.

Leading UK shale independent

Egdon has maintained a strong balance sheet during the recent downturn while growing its UK shale footprint. The exploration and appraisal of shale in the UK is not without geological and planning risk, but Egdon is well placed to benefit from a recent increase in interest in UK shale and activity levels. The appraisal of UK shale remains in its infancy, but thick, brittle carboniferous sections with high gas saturations/total organic content are encouraging from a technical perspective. As drilling and testing activity picks up in 2017 and 2018, we expect greater understanding of UK geology, shale per well economics and play sweet spots.

Group strategy

Egdon has three stated strategic objectives:

- Grow the company's exposure to unconventional resource and exploration opportunities in northern England.
- Add reserves/revenues through active drilling while managing the company's financial exposure.
- Continued focus on maximising profitable production through targeted investment.

Management

Egdon's management team comprises a number of professionals with geological backgrounds. This includes Mark Abbot, CEO, a founding director and trained geologist who has worked at the British Geological Survey, British Gas and Anadarko. Technical Director Jerry Field has a breadth of exploration experience with much of his career working on Egdon's core areas in the UK onshore and France. Exploration Director Martin Durham has held several senior exploration roles at LASMO, ENI and Northern Petroleum. As CEO of Realm Energy, Commercial and Business Development Director James Elston drove acquisitions of shale gas and tight oil acreage in Europe following in-depth, basin-by-basin technical review and ranking.

Political considerations

At the time of writing, the Conservative government agreed to partner with the Democratic Unionist Party (DUP) to form a coalition government. It is important to note that the largest political parties in the UK, which include the Conservatives, Labour and Liberal Democrats, have vastly different views on the topic of UK shale gas exploration to the extent that the two main parties are diametrically opposed.

The Conservatives have voiced a supportive stance, for both conventional and unconventional oil and gas, recognising the importance of the sector for the provision of skilled jobs and energy security, whereas Labour's 2017 election manifesto proposed a ban on fracking and an accelerated phase-out of fossil fuels within the energy mix. The Liberal Democrats also proposed a ban on fracking within its 2017 election manifesto. Clearly, there is a risk that current legislation covering

fracking may change on the back of future election results – we see this as a long-term investment risk.

US shale experience

The discovery and extraction of shale gas in the US has been a revolution. Gas prices have fallen, driving growth in the American economy and pushing down prices for consumers. The US has become less reliant on imported foreign energy and is more secure as a result. And because shale is cleaner than coal, it can also help reduce carbon emissions. We believe that shale energy has the potential to do the same thing in Britain, and could play a crucial role in rebalancing the UK economy, providing security of supply while providing baseload generation capacity to act in conjunction with intermittent power sources such as wind and solar.

We recognise that shale in the UK is unlikely to be as prolific as in the US due to higher population density, differences in mineral ownership rights and more onerous planning processes.

Conventional asset portfolio

Key projects within the conventional asset portfolio for Egdon for 2017/2018 include:

- Development of Wressle;
- Holmwood exploration;
- Biscathorpe oil appraisal;
- Resolution gas appraisal; and
- North Kelsey exploration.

Wressle (PEDL180, 25% Egdon): Wrestling with Wressle

On 11 January 2017, the North Lincolnshire County Council planning committee refused planning consent for the development of the Wressle oil field, despite a positive recommendation from the planning officer. As of April 2017, Egdon had appealed this decision and reapplied for planning permission after making adjustments to the proposal. In July 2017, Egdon's second planning application was refused and Egdon will now take the original January 2017 determination to appeal, due to be heard in November 2017. As such, we do not expect first oil from Wressle until CY18 (likely Q2) in our forecasts, although this will slip further if the November appeal is unsuccessful.

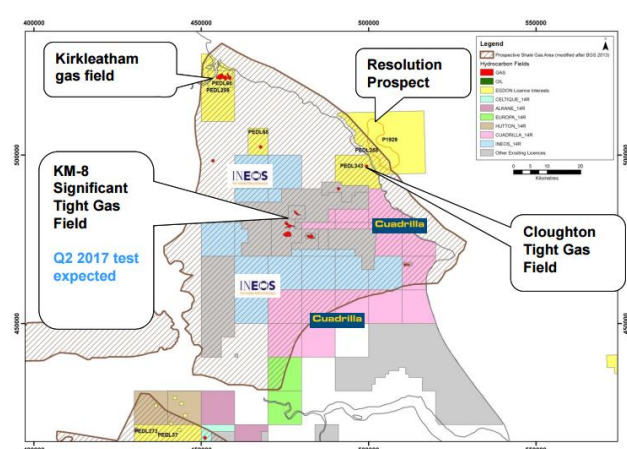
Egdon's production guidance was revised down from 165boe/d to 100-110boe/d for FY17 (year ending July 2017) in February 2017. Our asset valuation is broadly in line with recent Wressle M&A benchmarks. In September 2016, Union Jack acquired a 3.34% interest at an implied valuation of £17.9m gross and in November 2016 Upland farmed-in to the asset at an implied gross valuation of £18.5m gross (including contingent consideration). Both transactions helped underpin our DCF valuation, which currently stands at \$22.4m (£17.2m at \$1.3/£) after production deferment.

Much of the objection surrounding Egdon's planning application appears to be due to the use of acidisation and proppant squeeze to improve well productivity at Wressle. We note that, according to the briefing paper on acidisation by the American Petroleum Institute (API), this technique has been used for almost 120 years and is now one of the most widely used methods of well stimulation globally (including the UK North Sea). The API views the US regulatory framework surrounding the use of acid as well-developed and mature, as are the operational and safety practices employed by operators and service providers.

Resolution (PEDL1929, 100% Egdon): 3D seismic

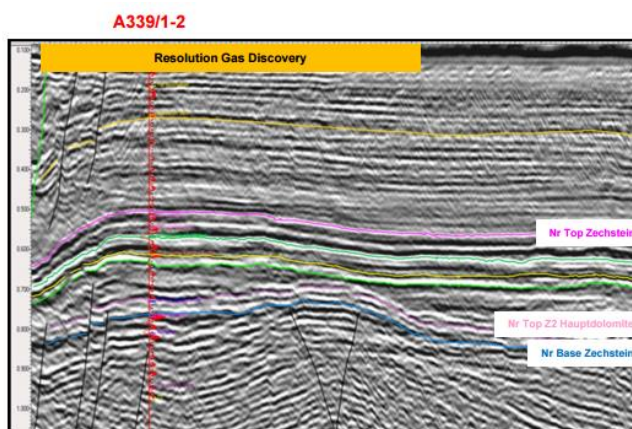
Egdon retains a 100% interest in the gross 164bcf (mean prospective resource) Resolution (formerly A prospect) discovery made by Total in 1966. Egdon expects to commit to a 3D seismic programme (expected cost £1m gross) in 2017, ahead of prospect farm-down. 3D seismic will assist in the location of a horizontal appraisal well, which is intended to be drilled from the offshore to reduce technical and planning risks. The tight carbonate reservoir was tested at 2.5mmscfd but Egdon expects that this could increase to 25-50mmscfd on test through the use of modern drilling techniques (horizontal well) and well acidisation. In the success case, Egdon anticipates that the discovery would be developed through a minimal offshore gas facility with onshore pipeline and gas processing. The Resolution anticline is seen as analogous to BP's significant Ravenspurn carboniferous prospect, which is currently being drilled. In our valuation, we assume a post farm-down working interest in Resolution of 50%.

Exhibit 1: Resolution prospect location



Source: Egdon Resources

Exhibit 2: Resolution gas discovery seismic line



Source: Egdon Resources

Biscathorpe (PEDL253, 52.8% Egdon): Drill ready

Exploration and appraisal of the net 7.4mmboe Biscathorpe prospect (Egdon retains a 52.8% interest) is expected in the first half of CY18 where Egdon is targeting thicker sands down-dip of a 1987 BP oil discovery. BP had targeted Biscathorpe at a crestal location, finding oil shows over a 1.2m sand section. Planning and environmental permits are in place to enable drilling to proceed. In the event of delays, we expect the partner group to apply for a licence extension as the current PEDL is expected to expire in June 2017. Biscathorpe is included in our conventional RENAV on a risk basis at 6.8p/share. Its net size and high working interest make this a material prospect for Egdon. Management retains the option to farm-down ahead of drilling to preserve capital and reduce net exposure, which we estimate at £1.3m.

Holmwood (PEDL143, 18.4% Egdon): Material activity in 2017

The Europa-operated Holmwood prospect is planning approved, after an appeal in 2015, and is set to be drilled in 2017. Egdon remains fully carried for the Holmwood exploration well by UK Oil and Gas Investments (UKOG) at an estimated gross cost of c £3m. The primary reservoir targets include the Portland and Corallian reservoir sands with incremental resource potential within the Kimmeridge Micrites proven by the Horse-Hill oil discovery on adjacent PEDL137, and at Broadford Bridge on PEDL234, which is currently being tested.

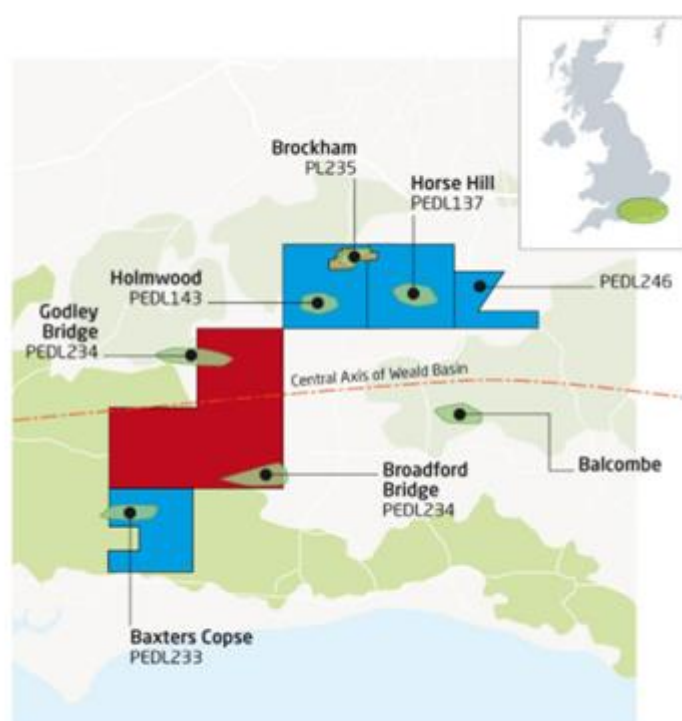
Portland and Corallian reservoir sands

The primary target at Holmwood is the Portland sandstone, which is proven to be productive at the Brockham field directly to the north-east and also during the flow-test of the Horse Hill discovery in CY16 (323bopd stable dry oil flow). Over the last six months, Angus Energy has modified the Brockham well site in preparations of oil production in summer 2017. Egdon has an 18.4% interest and net unrisks prospective resource of 1mmbbl within the Portland and Corallian; however, Kimmeridge Micrite prospective resource offers upside that we do not include in our valuation at this stage.

Kimmeridge Micrite upside

A number of wells have materially de-risked the weald basin Kimmeridge Micrite play in recent months including the Horse Hill oil discovery, the Brockham-X4z side-track and the Broadford Bridge (BB-1) exploratory well.

Exhibit 3: Holmwood prospect (PEDL143)



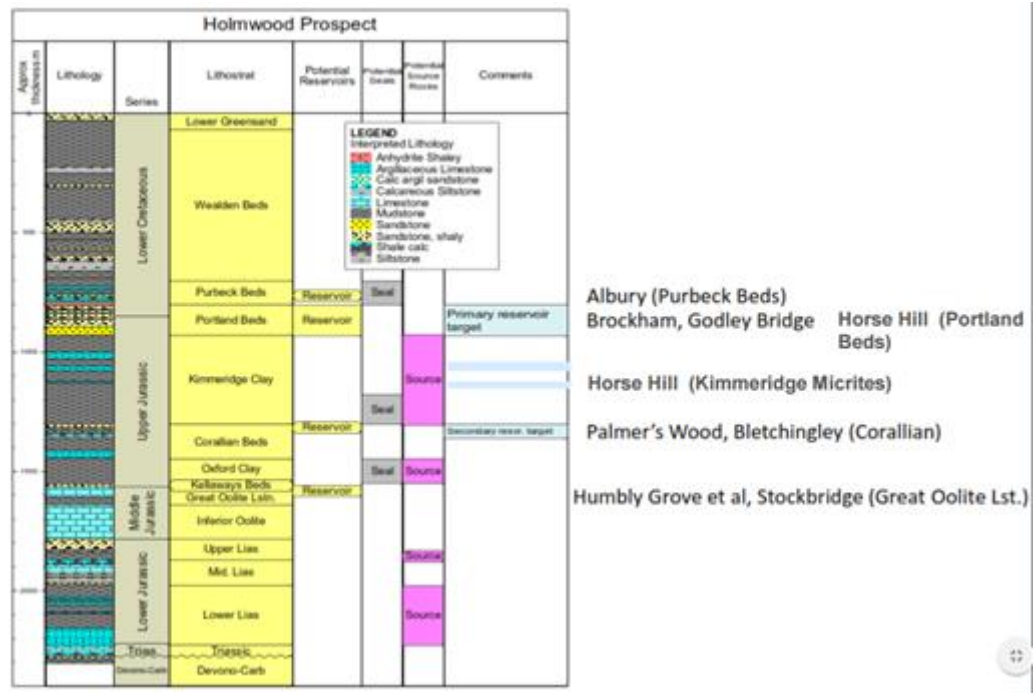
Source: UKOG PLC

The Horse Hill Kimmeridge Micrite play was de-risked post successful flow test of the upper and lower Kimmeridge units, following which the Angus Energy operated, BR-X4Z side-track confirmed the presence of numerous interbedded limestone and shales with gross thickness of 385m. A 200m band of the reservoir at Brockham-X4Z is naturally fractured and is to be placed on production following final consent from the OGA.

UKOG has a 100% interest in PEDL234 to the south-west of Holmwood. On 26 June 2017, UKOG announced that light oil had been observed seeping from core samples recovered from BB-1 and that wet gas readings were maintained throughout a 330ft core section – identical to those seen at Horse-Hill 27km to the north-east. UKOG believes the discovery to be significant with the possibility of a 600-700ft naturally fractured reservoir section, underlying a significant proportion of the wider Weald Basin. We expect further details to be released on the BB-1 oil discovery once electric logs and extended flow testing has been completed in July. We see this as a positive read for Egdon's interest in the upcoming Holmwood well (PEDL143) to the north-east.

Upcoming activity across the Portland sand play includes an extended well test at Horse Hill in late 2017/2018 (subject to planning). Third party Xodus estimates the Horse Hill Portland contingent resource to be 0.5mmbbl to 3.7mmbbl gross (2C 1.5mmbbl). Europa estimates gross unrisks prospective resource for the Portland/Corallian play on PEDL143 (Holmwood) at 5.6mmbbl gross P50 and 33% GCOS.

Exhibit 4: PEDL143 stratigraphy



Source: Egdon Resources

In addition to E&A activity, there have been a number of asset transactions and farm-outs across the Horse Hill play. On 6 February 2017, Angus Energy acquired a 12.5% economic interest in Holmwood (PEDL143) from Europa Oil and Gas. The terms of the acquisition are:

- 12.5% of back costs to 1 February 2016 (£26,563 net cost)
- 25% of Holmwood-1 exploration well up to a gross well cost of £3.2m
- 12.5% of non-well costs and gross well costs in excess of £3.2m
- Deferred payment to be made from net proceeds of sales from PEDL143 (not quantified)

As the upfront consideration is essentially limited to back costs and a two-for-one carry with few details on contingent consideration, it is difficult to benchmark against our riskd valuation. However, the implied gross PEDL valuation of £6.6m by the cost carry and back costs compares with our riskd valuation of \$10.0m gross or £8m.

North Kelsey (PEDL143, 80% Egdon): Farm-out in 2017

The North Kelsey prospect is expected to be drilled in Q417 to H118, subject to farm-out of Egdon's 80% interest. North Kelsey is a Wressle look-alike targeting 6.5mmbo gross P50 unrisks prospective (5.18mmbo net) across multiple reservoir targets. Egdon plans to test for oil in the Penistone Flags as well as deeper reservoir intervals using a slim-hole well in order to minimise cost. Egdon may look for a licence extension as the initial term end-date was set at 30 June 2017.

Conventional asset acquisition – Fiskerton Airfield

On 10 July 2017, Egdon announced the acquisition of the Fiskerton Airfield oil field (site base on a former RAF airfield) from Cirque Energy for a consideration of \$750k. The Fiskerton Airfield field is 7km east of Lincoln and was discovered in 1977, with cumulative production of 440mmbbl to date. The light oil field is mapped to have most likely OIIP place of 2.2mmbbl, suggesting recovery to date of 20%. Egdon expects that a work programme consisting of two well workovers has the potential to recover an additional 100mmbbl, taking total field recovery to 25%. Well workovers are expected to be relatively low cost at c £0.16m for the two-well programme. We estimate the acquired field to be valued at \$1.3m, hence the deal is marginally accretive to NAV, adding c \$0.55m or 0.15p/share.

Unconventional asset portfolio and activity

Egdon's unconventional portfolio remains little changed from our [last note](#) (27 February 2017). We continue to value shale acreage on a notional dollars-per-acre basis, including 14 round awards. We use a unit valuation of \$400 per acre (transaction values range from \$200 per acre to \$2,000 per acre). A full breakdown of our conventional and unconventional valuation is provided below.

Key 2017 newsflow for the UK onshore unconventional sector includes the fracturing of an existing well by Third Energy at KM-8 to establish flow potential and the drilling and frack of a well at Preston New Road by Cuadrilla. Construction work and site preparation has begun at Preston New Road. Activities at Springs Road are also likely to be progressed following recent planning approval and final planning consents.

KM-8 (Third Energy operated 100%)

In December 2016, Third Energy's planning permission for KM-8 was upheld and the judicial review case by Friends of the Earth and Frack Free Rydale was dismissed. The council set 40 conditions that need to be fulfilled before planning permission is granted, which Third Energy is on its way to satisfying. The planning process has been protracted, taking nearly two years to date. It was initially expected that KM-8 testing would be in Q217, but this has since slipped.

Springs Road (IGas operated 14.5%, Total E&P 40%, Egdon 14.5%, eCorp 13.5%, Dart Energy 17.5%)

IGas received planning approval to drill two exploratory wells in Springs Road, Mission Springs, North Nottinghamshire in November 2016, and the site received final planning consents (Section 106) from Nottinghamshire County Council earlier this year. Egdon has a 14.5% carried interest after farm-out to Total. Total is to fund a \$46.5m work programme with an option to exit after a minimum commitment of \$19.5m.

Preston New Road (Cuadrilla operated 51.25%, AJ Lucas 23.75%, Centrica 25%)

In October 2016, Sajid Javid approved Cuadrilla's application to drill, frack and test up to four wells at Preston New Road, Lancashire. Despite legal challenges, government lawyers defended the decision to grant planning consent to Cuadrilla and civil works have been completed ahead of drilling. A well is expected to be drilled in Q317 and fracked towards the end of CY17 with initial flow testing in early 2018.

Roseacre Wood (Cuadrilla operated 51.25%, AJ Lucas 23.75%, Centrica 25%)

A public inquiry into Cuadrilla's second site in Lancashire, Roseacre Wood will be reopened in spring 2018 after the planning inspector refused planning consent in 2016. The reopened inquiry will give Cuadrilla the opportunity to provide additional evidence to support its planning application. On 12 April 2017, a High Court dismissed the challenge to the decision by the Communities and Local Government Secretary Sajid Javid to reopen the inquiry into this site. A planning inquiry is to be held in 2018.

Ineos – current activity

Ineos has extensive licence interests across North and South Yorkshire, the East Midlands and Cheshire. Ineos expect to submit numerous planning applications for core sampling across its licence base in 2017. It is expected that applications to frac and flow test sites deemed to be suitable for shale gas appraisal will follow.

Ineos's current shale gas applications are as follows:

1. **Bramblemoor lane** – a full application has been submitted to Derbyshire County Council for the drilling of a vertical well designed to 'core' sample rock for laboratory testing. There are currently no plans to fracture shale at the well site.
2. **Harthill** – Ineos has submitted plans to explore for shale gas at the Harthill site between Sheffield and Worksop. A public consultation by Rotherham Borough Council runs until 21 July. Plans include the drilling of a vertical gas exploration well, extraction of a 'core' sample and a pressure transient test – the application excludes fracking at this stage.
3. **East Midlands seismic survey** – starting in June 2017, Ineos is conducting a 250km² 3D seismic survey in the East Midlands starting near Harthill and finishing near Kings Clipstone. The survey is expected to take up to six months.

Recent government surveys of support and opposition for hydraulic fracturing suggest that the industry needs to do more to aid understanding of the processes involved and how both visible and subsurface environmental impact can be minimised. The current government believes that shale gas has the potential to provide the UK with greater energy security, growth and jobs, and believes that the process can be managed in order to limit risks to the environment, mitigate seismic activity and minimise greenhouse gas emissions.

Management

Mark Abbott – managing director

Mark is an experienced geophysicist and founding director of Egdon Resources. He graduated from Nottingham University in 1985 with a degree in exploration sciences (geology/geophysics/mining engineering). He worked for the British Geological Survey from 1985 to 1992 in the UK and overseas. Between 1992 and 1996 he worked in the International Division of British Gas Exploration and Production Limited and was employed by Anadarko Algeria Corporation from 1996 to 1997. He is a council member of UKOOG and a trustee of the UK Onshore Geophysical Library. He is also a director of MA Exploration Services and Bishopswood Pavilion.

Jerry Field – technical director

Jerry has over 30 years' oil industry experience in small-to-medium sized E&P companies (including Weeks Petroleum, Triton, Ranger, Canadian Natural Resources, Toreador and Northern Petroleum). Jerry has a breadth of experience of exploration in Europe, Africa, the Middle East and

the Indian subcontinent and has spent much of his career working in Egdon's core areas of the UK onshore and France.

James Elston – commercial and business development director

James has 25 years' experience in industry, banking and consulting. As CEO of TSX-V listed Realm Energy International in 2009/10, he drove the company's acquisition of a significant acreage position for shale gas and tight oil in Europe following in-depth, basin-by-basin technical review and ranking. He spent five years working onshore E&P as an engineer at NAM in the Netherlands.

Martin Durham – exploration director

Martin graduated from the University of Wales in 1978 with a Bachelor of Science degree in geology and also holds a Master of Science degree in petroleum geology from Imperial College, London University (1982). Martin has significant industry experience gained through companies including Louisiana Land and Exploration, LASMO, Eni and Northern Petroleum. During this time he has held senior technical and management roles for exploration and field development projects. Martin was founding director of Union Jack Oil, a position he held until his appointment to Egdon in September 2014. Martin is a Fellow of the Geological Society and in 2012 he was awarded Honorary Life Membership of the Petroleum Exploration Society of Great Britain.

Martin Brooks – HSE and production manager

Martin worked in various industries in the implementation and management of specific production, health, safety and environmental mechanisms and ensuring compliance with ISO14001, prior to joining Egdon in 2007. He now has over seven years' experience of managing onshore oil and gas production activities including commissioning the Kirkleatham gas field development. He oversees Egdon's Planning and Environmental Permitting for the company's UK onshore drilling activities and is also responsible for developing and implementing the company's HSE management systems at both corporate and site-specific levels.

Risks and sensitivities

Sector risks

As with all companies in the sector, Egdon is leveraged to underlying oil and gas price assumptions. Leverage is largely operational as Egdon has zero debt, but mature UK onshore operations can be relatively high cost with individual asset operational costs ranging from \$10-40/boe. For the six months ending January 2017, cash costs were \$15.6/boe.

Edison's relevant oil and gas price assumptions are shown in the table below.

Exhibit 5: Edison macro assumptions – Brent Crude and UK NBP				
	2017	2018	2019	2020
Brent \$/bbl	51.8	57.2	67	73
UK NBP p/therm	41	42	43.1	44.2
Source: Edison Investment Research				

Funding – small-cap E&P companies have relatively high costs of capital as access to debt can be limited for exploration and pre-development assets. Companies such as Egdon can be reliant on farm-outs, equity and asset sales with implied costs of capital ranging from 15-40%. For Egdon's unfunded conventional asset portfolio, we assume funding through farm-out with c 50% value dilution.

Company-specific risks

Fiscal – Egdon's operations are largely UK-based; hence the company is subject to changes in UK fiscal policy. As of late, fiscal terms have become more generous in order to incentivise investment in the UK energy sector despite the recent commodity price collapse. There is a risk that fiscal terms change if prices rise significantly from current levels.

Planning – Planning processes for UK onshore conventional and unconventional drilling activity have led to project delays, most notably at Wressle. Nevertheless, Cuadrilla has received approvals that enable the company to drill and test a shale gas exploration/appraisal well in 2017. Egdon has also secured planning permission for wells at four locations, including North Kelsey and Biscathorpe. Successful planning applications such as these should act as a precedent for further approvals.

Valuation

As can be seen in our RENAV below, conventional producing assets constitute a small part of RENAV at 3.5p/share (including cash and net of G&A) and the bulk value of our conventional valuation lies in appraisal and development (18.0p/share).

Exhibit 6: Egdon updated RENAV

Assets	Country/ licence	WI %	GCoS %	CCoS %	Net mboe	NPV/boe \$/boe	NPV \$m	Risked p/share
\$1.3/£, shares 259m								
Net (debt) cash January 2017 - post acquisition cost							8.1	2.40
G&A							(1.6)	(0.47)
Production								
Avington	UK	27%	100%	100%	0.10	5.7	0.6	0.17
Keddington	UK	45%	100%	100%	0.09	5.1	0.5	0.13
Ceres	UK	10%	100%	100%	0.23	(2.6)	(0.6)	(0.18)
Fiskerton	UK	100%	100%	100%	0.10	12.4	1.3	0.38
Wressle (Ashover Grit)	UK	25%	100%	90%	0.15	25.7	3.4	1.0
Core NAV							11.6	3.45
Exploration								
North Kelsey	UK	80%	24%	50%	3.88	17.3	8.1	2.4
Louth	UK	65%	40%	50%	0.85	13.5	2.3	0.7
Wressle (upside)	UK	25%	50%	50%	0.38	19.3	1.8	0.5
Broughton	UK	25%	45%	50%	0.11	19.3	0.5	0.1
Biscathorpe	UK	53%	40%	50%	7.24	15.9	23.0	6.8
Holmwood	UK	18%	33%	50%	1.03	10.8	1.8	0.5
Resolution	UK	50%	52%	50%	12.65	7.0	23.2	6.9
Appraisal & Exploration NAV							60.6	18.02
RENAV							72.3	21.48

Source: Edison Investment Research. Note: *Working interest after assumed farm-in (current working interest 100%). \$1.3/£; 259m shares.

As mentioned above, we believe the company's most valuable conventional assets are the Resolution prospect (risked 6.9p/share) and Biscathorpe prospect (risked 6.8p/share). In addition to this, we provide an indicative valuation for Egdon's shale acreage at (26.0p/share).

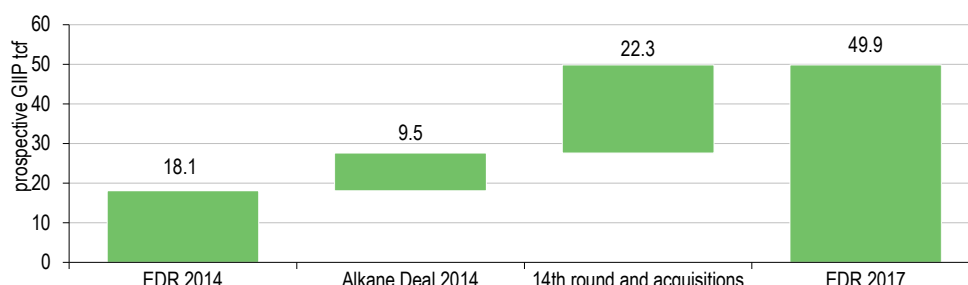
Our 21.5p/share RENAV is based on a \$70/bbl long-term Brent price and reduces to 19.2p/share at \$60/bbl and 16.9p/share at \$50/bbl. Egdon's gas assets (the largest of which is the Resolution prospect) help support valuation under lower oil price scenarios.

In addition to our conventional valuation above, we include a dollars-per-acre valuation from unconventional resources. This is broken down by licence below.

Exhibit 7: Egdon net prospective shale acreage

Location	Region	Interest	Gross acreage	Net acreage	\$/acre	Value (\$m)	Value (p/share)
Gainsborough Trough	East Midlands	100.00%	4,448	4,448	400	1.8	0.53
Gainsborough Trough	East Midlands	100.00%	14,085	14,085	400	5.6	1.67
Gainsborough Trough	East Midlands	20.00%	15,321	3,064	400	1.2	0.36
Gainsborough Trough	East Midlands	100.00%	2,471	2,471	400	1.0	0.29
Gainsborough Trough	East Midlands	100.00%	1,483	1,483	400	0.6	0.18
Edale Shelf	East Midlands	100.00%	20,806	20,806	400	8.3	2.47
Edale Shelf	East Midlands	100.00%	2,718	2,718	400	1.1	0.32
Croxteth	Bowland Basin	100.00%	16,309	16,309	400	6.5	1.94
Manchester	Bowland Basin	100.00%	741	741	400	0.3	0.09
Manchester	Bowland Basin	100.00%	741	741	400	0.3	0.09
Gainsborough Trough	East Midlands	14.50%	59,453	8,621	1000	8.6	2.56
Gainsborough Trough	East Midlands	36.00%	15,815	5,693	400	2.3	0.68
Widmerpool Gulf	East Midlands	32.50%	19,768	6,425	400	2.6	0.76
Cleveland Basin	Cleveland Basin	68.00%	8,846	6,016	400	2.4	0.72
Gainsborough Trough	East Midlands	50.00%	30,221	15,110	400	6.0	1.80
Edale Shelf	East Midlands	100.00%	5,436	5,436	400	2.2	0.65
Humber	East Midlands	25%	39,537	9,884	400	4.0	1.17
Gainsborough North West JV	East Midlands	15.00%	48,433	7,265	400	2.9	0.86
Gainsborough South JV	East Midlands	15.00%	35,336	5,300	400	2.1	0.63
Gainsborough East JV 1	East Midlands	15.00%	27,429	4,114	400	1.6	0.49
Widmerpool 1	East Midlands	30.00%	47,197	14,159	400	5.7	1.68
Cloughton Area	Cleveland Basin	17.50%	27,182	4,757	400	1.9	0.57
Stainmore Trough	Cleveland Basin	49.99%	34,348	17,170	400	6.9	2.04
Humber Basin 1	East Midlands	60.00%	40,525	24,315	400	9.7	2.89
Kirk Smeaton	East Midlands	50.00%	9,390	4,695	400	1.9	0.56
Total			528,039	205,828		87.5	26.0

Source: Edison Investment Research, Egdon Resources. Note: \$1.3/£.

Exhibit 8: Growth in mean net prospective undiscovered shale gas initially in place (GIIP)


Source: Egdon Resources FY results presentation, Edison Investment Research

Financials

Our short-term financial forecasts assume Wressle first oil in CY18, which drives a step-up in production to a forecast 155boe/d in FY18 and a material increase in operational cash flow to £0.2m. We expect cash generated from operations to be reinvested in appraisal or development of contingent resources as well as in progressing the company's net shale acreage position. Egdon is actively pursuing farm-down and divestment of non-core assets to manage cash resource and risk exposure.

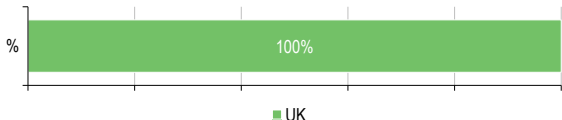
Cash flow

Cash generation is expected to increase post Wressle first oil but expect free cash flow to remain negative as Egdon deploys capital on shale gas related activity.

Balance sheet

Egdon remains debt-free with a last reported cash position of £6.80m at 31 January 2017. The company's ability to fund its planned work programme for 2017 is contingent on the farm-down of its 52.8% interest in Biscathorpe exploration and 100% interest in Resolution appraisal. Work plans could be delayed if funding is not available.

Exhibit 9: Financial summary					
	£000s	2015	2016	2017e	2018e
		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Year end 31 July					
Revenue		2,068	1,586	1,228	2,463
Cost of Sales		(5,131)	(1,287)	(1,012)	(1,101)
Gross Profit		(3,063)	299	216	1,362
EBITDA		(4,015)	(733)	(925)	162
Operating Profit (before amort. and except.)		(4,539)	(2,652)	(1,833)	(1,322)
Intangible Amortisation		0	0	0	0
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		(4,539)	(2,652)	(1,833)	(1,322)
Net Interest		(2)	(34)	(52)	0
Profit Before Tax (norm)		(4,540)	(2,686)	(1,885)	(1,322)
Profit Before Tax (FRS 3)		(4,540)	(2,686)	(1,885)	(1,322)
Tax		0	0	0	0
Profit After Tax (norm)		(4,540)	(2,686)	(1,885)	(1,322)
Profit After Tax (FRS 3)		(4,540)	(2,686)	(1,885)	(1,322)
Average Number of Shares Outstanding (m)		221	221	240	259
EPS - normalised (p)		(2.1)	(1.2)	(0.8)	(0.5)
EPS - normalised and fully diluted (p)		(2.0)	(1.2)	(0.8)	(0.5)
EPS - (IFRS) (p)		(2.1)	(1.2)	(0.8)	(0.5)
BALANCE SHEET					
Fixed Assets		26,703	27,053	28,348	29,874
Intangible Assets		17,864	18,370	19,583	22,343
Tangible Assets		8,838	8,683	8,765	7,531
Investments		0	0	0	0
Current Assets		8,120	5,270	6,651	3,803
Stocks		0	0	0	0
Debtors		2,889	2,541	1,795	1,795
Cash		5,180	2,679	4,806	1,958
Other		50	50	50	50
Current Liabilities		(941)	(1,085)	(642)	(642)
Creditors		(941)	(1,085)	(642)	(642)
Short term borrowings		0	0	0	0
Long Term Liabilities		(1,827)	(1,803)	(1,842)	(1,842)
Long term borrowings		0	0	0	0
Other long term liabilities		(1,827)	(1,803)	(1,842)	(1,842)
Net Assets		32,054	29,435	32,515	31,192
CASH FLOW					
Operating Cash Flow		(1,437)	(159)	(604)	162
Net Interest		(0)	0	(29)	0
Tax		0	0	0	0
Capex		(3,255)	(2,379)	(1,656)	(3,010)
Acquisitions/disposals		78	0	(500)	0
Equity Financing		0	0	4,915	0
Other cash flow		35	8	1	0
Net Cash Flow		(4,580)	(2,529)	2,127	(2,848)
Opening net debt/(cash)		(9,667)	(5,180)	(2,679)	(4,806)
HP finance leases initiated		0	0	0	0
Other		(93)	(28)	(0)	0
Closing net debt/(cash)		(5,180)	(2,679)	(4,806)	(1,958)
Source: Egdon Resources accounts, Edison Investment Research					

Contact details	Revenue by geography
Egdon Resources plc The Wheat House 98 High Street Odiham, Hampshire RG29 1LP www.egdon-resources.com	 <p>100% ■ UK</p>
Management team	
Managing director: Mark Abbott A geologist by training, Mr Abbott has gained experience at the British Geological Survey, BG and Anadarko. He co-founded Egdon Resources in 1997.	Chairman: Philip Stephens Mr Stephens is a corporate financier with significant City experience. He was head of UK corporate finance at UBS and joint head of corporate finance at Williams de Broe.
Exploration director: Jerry Field Mr Field has over 30 years' experience in the oil and gas industry. He has worked for a range of companies, including Ranger, Weeks and Northern Petroleum.	
Principal shareholders	(%)
Petrichor Holdings Copertatif	16.24%
Alkane Energy UK	15.42%
Premier Oil	15.11%
Hargreave Hale & Co	10.16%
JP Morgan Asset Mgt	7.07%
Hargreaves Lansdown Asset Mgt	5.30%
Mr Mark Abbott	2.99%
Companies named in this report	
Egdon Resources, Cuadrilla Resources, UK Oil and Gas Investments, Angus Energy, Cirque Energy, Third Energy, IGas, AJ Lucas, Ineos	

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