

The oil discovery update news from Horse Hill-1 on 17 December has re-awakened interest in those players with a stake in the project, and furthermore increasing likelihood of a significant new UK onshore commercial oil field being developed in the Weald Basin. With this new information available we have computed a revised valuation based upon our provisional estimate of at least 34m barrels of oil gross to the consortium, of which Regency holds a net 3.56% interest.

The 17/12/14 update RNS increased the estimated discovered gross 'oil in place' at the most likely level (P50) from 3.1m to 8.2m barrels within the Upper Portland sandstone reservoir structure, covering both the recent Horse Hill (HH-1) discovery and Collendean Farm-1 (CF-1) well drilled by Esso in 1964. It also revealed that an oil play may extend to the southern part of licence PEDL 137 within the Upper Jurassic Kimmeridgian Clay (KC) formation. It is interesting to note that this source rock has generated most of the oil and gas in the North Sea (over 50 billion barrels discovered and developed). One of the next steps will be to conduct a flow test on the Upper Portland sandstone and then submit a field development plan, all of which are subject to securing approvals from various government agencies.

By using the same approach used in our 28/10/14 note, an updated valuation has been calculated from the revised discovery estimates and other new information disclosed about the oil producing potential of HH and nearby area. As many unknown factors remain, we continue to be prudent in our projections. Such 'unknowns' include the recovery rate, updated estimates for the 'undiscovered oil' within the Lower Portland Sandstone (previously indicated at 16.8m gross barrels at P50), potential of the newly identified KC and other areas on both PEDL 137 and 246. We have maintained a discovery value of \$15 per barrel in our calculations, as we believe onshore projects will remain attractive due to their potential to generate larger profit margins than offshore projects, many of which could be uneconomic in today's lower oil price environment. If the oil price falls below \$40 per barrel then we may need to review our discovery value estimate.

The net value to Regency of its oil interests in our 'Base Case' scenario has improved from \$4.19m to \$6.93m. Most of this is attributed to value from the Portland Sandstone (\$3.08m net) and oil bearing KC potential, which we have estimated at 80% of the Portland Sandstone area (\$2.46m net). The value of other prospects on PEDL 137 have been estimated at \$1.39m net, representing 25% of the KC and Portland areas. Although PEDL 246 has potential to be as prospective as the adjacent PEDL 137 licence, we have not attributed any value to it at this stage. By adding Regency's other interests (\$8.56m) a final figure of \$15.49m (£9.9m) is derived or 0.53p per share once debt is deducted and other adjustments made (-£0.43m). This is lower than the estimate previously calculated in October of £13.78m, as it included a \$5.07m net risked value for the deep level gas target, which was subsequently not intersected. The announcement of further upgraded discovery resource estimates by the consortium could move our valuation substantially higher. Furthermore, Regency has several other projects that could be company makers in their own right, such as the recently awarded rare earth minerals project in Greenland or agrominerals interests in Sudan.

In the coming period we look forward to further information being disclosed about the oil producing potential of the HH-1/CF-1 structure, flow test results and field development plans. The potential of the HH-1/CF-1 structure and adjacent areas developing into a much larger overall field, with the discovery of several small oil pockets, akin to the development of a Wytch Farm (479.6m barrels) style field remains enticingly possible. Our 'Low Case' valuation scenario is £6.37m (0.36p per share) and 'High Case' valuation £14.7m (0.82p). These estimates are based upon the limited information known to date. The 'High Case' could prove much higher if further discoveries are revealed. Our preliminary Base Case figure equating to **0.53p** per share provides a price target for **Regency Mines**. Considering the wealth and extent of projects within the Group portfolio, along with near term opportunities for valuation upgrades at Horse Hill, the current £2.7m market cap seems too low and leads us to arrive at a '**Buy**' recommendation.

BUY#

0.53p Price Target##

Price Data

Price:	0.15p
Shares in Issue:	1.788bn
52 Week High/Low	0.52p/0.12p

Profile

Ticker:	RGM.L
Market:	AIM - London
Sector:	Basic Resources.
Weblink	regency-mines.com

Key Data

Market Cap:	£2.7m
Est. Net Debt:	£0.33m

Activities

Primarily the investment, development and exploration of resource projects.

Directors

Andrew Bell (CEO & Chairman)
Scott Kaintz (Dir & COO)
Edmund Bugnosen (Non-Ex)
John Watkins (Non-Ex)
Julian Lee (Non-Ex)

Main Shareholders (>4%)

TD Direct Investing Nom'	16.0%
Barclayshare Nom'	11.8%
JIM Nominees	9.4%
Hargreaves Lansdown Nom'	7.2%
HDSL Nominees	4.1%

Valuation By Project

Horse Hill / PEDL 137	£4.44m
Mambare	£1.81m
Lake Trist	£0.70m
Sudan Agrominerals	£0.44m
W.Virginia Oil Shallow	TBD value
Motzfeldt	TBD value
Direct Nickel Ltd	£1.89
AIM Holdings*	£0.41m
RAM Resources	£0.24m

#Dowgate Capital Stockbrokers act as Broker to Regency Mines Plc.

Previous price targets from 28 October 2014 - 0.81p- Dowgate Capital.

HH-1 & CF-1 Structure	Low (P90)	Medium (P50)	High (P10)
Gross million barrels of oil in place			
Discovered Upper Portland Sandstone <i>(previous estimate)</i>	5.7 <i>(1.5)</i>	8.2 <i>(3.1)</i>	12.1 <i>(4.8)</i>
Undiscovered Lower Portland Sandstone	7.8	16.8	29.7

Table 1: Estimated gross oil in place for the Upper and Lower Portland Sandstone.

Source – Regency Mines RNS 17/12/14 and 24/10/14 – Lower Portland Sandstone undiscovered (and previous Upper Portland Sandstone discovered estimates) prepared by Stephen Sanderson for 24/10/2014 Regency Mines plc RNS, acting as competent person on behalf of Horse Hill Development Limited. New Upper Portland Sandstone discovered estimates reviewed and approved by Jonathan Tidswell-Pretorius, a director of Horse Hill Developments Limited and Angus Energy Ltd. P90/P50/P10 relates to P% that stated volume will be met or exceeded.

Asset Values For Base Case	Regency net Value \$	Rationale
Portland Sandstone (HH-1 & CF-1)	\$3.08m	Average of P90 and P50 estimates - Upper and Lower Portland Sandstone, shown in Table 1 (19.25m barrels) * 30% estimate recoverable * 3.56% net Regency interest * \$15 per barrel estimate discovery value.
Kimmeridge Clay (HH-1 & CF-1)	\$2.46m	Estimated 80% of Portland Sandstone potential value.
Other prospects on PEDL 137	\$1.39m	Estimated 25% of value for above Portland and Kimmeridge.
PEDL 246 prospects	TBD	PEDL 246 licence could be as prospective as PEDL 137, but its too early to value now.
Other Regency Projects	\$8.56m	Estimated value of Regency's other projects, refer to Table 4 and 4/9/14 Dowgate Research Note.
Sub Total \$	\$15.49m	
Sub Total £	£9.93m	(£/\$1.56)
Less Adjustments	(£0.43m)	Includes £0.33m debt and value of Alba holding £0.1m, as value already reflected in above estimates.
Total £	£9.50m	Or 0.53p per share

Table 2: Dowgate Capital Regency valuation breakdown.

Valuation Scenarios	Low Case	Base Case	High Case
Portland Sandstone Barrels (Gross/Net) million	5.7/0.20m	19.25/0.68m	41.8/1.49m
Portland Value	\$0.91m	\$3.08m	\$6.69m
Kimmeridge Clay	\$0.73m	\$2.46m	\$5.35m
Other PEDL 137 Prospects	\$0.41m	\$1.39m	\$3.01m
Other Regency Projects (See Table 4)	\$8.56m	\$8.56m	\$8.56m
Sub Total \$	\$10.61m	\$15.49m	\$23.61m
Sub Total £ (£/\$1.56)	£6.80m	£9.93m	£15.13m
Less Adjustments	(£0.43m)	(£0.43m)	(£0.43m)
Total	£6.37m	£9.50m	£14.70m
Per share	0.36p	0.53p	0.82p

Table 3: Dowgate Capital's Regency valuation scenarios.

Project	£ Value	US\$/AS\$ Currency	Rationale
Mambare - PNG (nickel, cobalt & gold)	£1.81m	US\$2.82m	50% interest valued at \$4.6 per Inferred tonne of nickel * 1.496m tonnes of nickel + \$19.3m per Indicated tonne of nickel * 0.033m tonnes of nickel, minus 25% discount.###
Lake Trist - PNG (nickel & gold)	£0.70m	US\$1.09m	Same principal as Mambare valuation, but with a higher discount of 50%. Previously valued at £1.44m.
Sudan (phosphate, potash & gypsum)	£0.44m		Value reflecting money and time spent on project, as at Sept 14.
West Virginia - USA Shallow Oil	TBD		Await results of first two shallow oil wells to be drilled and subsequent development plans.
Motzfeldt - Greenland, (Tantalum/Niobium /REE)	TBD		Although a JORC resource has been defined over part of the project, further analysis required to determine a value for project.
Direct Nickel Ltd	£1.89m	A\$3.59m	Holding valued at 25% discount to previous funding round at A\$0.55c per share. £1/A\$1.90.
AIM Holdings	£0.41m		Holdings in AIM listed Alba Mineral Resources & Red Rock Resources.
RAM Resources	£0.24m	A\$0.45m	Holding in ASX listed stock. £/A\$1.90.
Total £	£5.49m or US\$8.56 at US\$/£1.56 exchange rate		

Table 4: Summary of Regency's other (non Horse Hill) projects. For a more detailed description and analysis of these projects please refer to Dowgate's research note of 04/09/14 (page 5 to 12). Copies available on request.

Indicated (\$4.6) and Inferred (\$19.3) per tonne of nickel estimated by making a direct comparison with AIM listed Horizonte Minerals (HZM), which has a similar nickel project at Araguaia in Brazil, with 0.96m tonnes of contained nickel at the Indicated level and 0.31m Inferred tonnes. We have assumed the current market cap of HZM equals the perceived market value of its Araguaia nickel project, with a higher value applied to Indicated nickel tonnes, than Inferred tonnes. As Regency's interest in Mambare is earlier stage than Araguaia and due to the greater challenges of developing a project in PNG than Brazil, a 25% discount factor has been applied to the final total. The market cap of HZM is now lower (£15m) than it was on 04/09/14 (£26m), which is mostly a reflection of lower nickel prices. Previously each inferred tonne of nickel was valued at \$10 and each Indicated tonne at \$42. Mambare was previously valued at £3.72m (now £1.81m).

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