



## WGO: West Erregulla-3 drilling operations suspended

Sentiment Indicator : neutral

Produced by Ramsay, Gordon (Royal Bank of Canada - Sydney Branch) on Monday, January 04, 2021, 04:14 AM ET

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### Warrego Energy Limited | WGO AU | Outperform, Speculative Risk | Current price A\$0.24 | Price Target A\$0.35

West Erregulla-3 well suspended before hitting target zone

#### West Erregulla-3 (WGO 50%, STX 50% and operator)

The WE-3 gas field appraisal well in the complex northern area of the mapped West Erregulla structure has encountered an unexpected over pressured gas charged section after drilling into a fault zone in the Caryngina shale. This high pressured shale section exceeds the design limit of the well and therefore the joint venture has elected to suspend WE-3 for potential future re-evaluation before drilling into the key reservoir target zones. WE-3 also got off to a poor start when it ran into mechanical drilling difficulties in October 2020 and was forced to leave two mud motor sections in the well that required side tracks to drill around them.

When we take the above factors into consideration, we estimate overall WE-3 drilling operations are now running around 1 month behind schedule, which we estimate adds ~A\$5m in additional drilling cost for a total WE-3 well cost of ~A\$30m gross and unfortunately without delivering the intended result of confirming gas charged reservoir section.

The FID timing for the Phase 1 West Erregulla field development will now delay slightly, with operator Strike Energy expecting to FID in 1H 2021 assuming WE-4 goes to plan. Rig 970 will next move to the lower risk Central Area of the field and drill WE-4, which essentially twins the WE-3 discovery well. WE-4 will test the highest amplitudes in the down dip flank of the Central Area.

#### WE-3 Drilling History

##### 21 September 2020

Rig 970 starts drilling the West Erregulla-3 gas field appraisal well in the onshore Perth basin with a planned total of depth of >5,000m.

##### 14 October 2020

While tripping out of the well at 1,210m the bottom hole assembly parted and the mud motor and drill bit were left in the hole. Fishing operations were unsuccessful and the well was side tracked.

##### 26 October 2020

The well successfully side tracked around the fish before drilling ahead. At a depth of 1,629m the new mud motor parted and was left in the hole. A cement plug was set above the fish and the well was side tracked again.

##### 16 November 2020

A pressure test of the 13 3/8" casing at a depth of 2,462m found the slip and seal assembly connection had failed and this had to be replaced before commencing the second intermediate section of the hole.

##### 4 January 2021

At a depth of 4,294m the well encountered over pressured Caryngina shale section of more than 9,700 PSI with potential to exceed the design limits of the well / rig rating and the well has been suspended.

#### RBC Fundamental View

Warrego provides a leveraged, early-stage investment opportunity into the emerging onshore Perth Basin deep gas play. We see strong resource upside at West Erregulla with the Alcoa gas sales contract to underwrite future field development. Gas-processing agreement with AGIG facilitates mid-stream development. We believe Warrego is undervalued on a DCF basis, resource potential, and relative to its joint venture partner. We rate Warrego Outperform, Speculative Risk.

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
Warrego Energy Limited	Australian SE	WGO AU	Outperform	Speculative Risk	0.35	Australian Dollar	0.24	04 Jan 2021 04:09:35 ET

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