

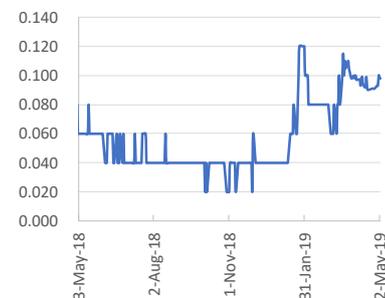
Warrego Energy Limited (ASX: WGO)

March quarterly observations: West Erregulla-2 probability of success

Overview

- Warrego's Perth Basin partner, Strike Energy, released information in its March quarterly to support Strike's view of the high probability of success for the West Erregulla-2 well.
- Spudding of the WE-2 well is expected in late May. Drilling and testing is expected to take ~60 days. Three targets (1 oil, 2 gas) will be tested.
- Our base case valuation of \$0.17/share (range \$0.05-0.43) and upside potential on exploration success at WE of \$0.63/sh., discussed in our report of 19th March, remain unchanged.
- Market cap = \$50m at \$0.098/share as of 3rd May 2019

SHARE PRICE PERFORMANCE



Closing price as of 3rd May 2019,

Key points

Background: Warrego is focused on oil and gas exploration in the onshore Perth Basin and onshore Spain. The company is involved in near-term drilling of two large gas prospects: West Erregulla-2 (with gross P50 prospective resource of up to 1,163 bcf); and Tesorillo-1 (830 bcf P50 gross) in southern Spain. Both wells are adjacent to previous discoveries in gas-short markets, with drilling costs largely funded by JV partners. Further information is provided in our research report of 19th March 2019 and briefing summary of 26th March 2019.

Near-term drilling interest: West Erregulla is a near-field analogue to Beach/Mitsui's Waitsia project, one of the largest onshore gas discoveries in Australia, and is expected to spud later this month. West Erregulla is a similar size to Waitsia and is targeting the same formations (Kingia and High Cliff, "KHC").

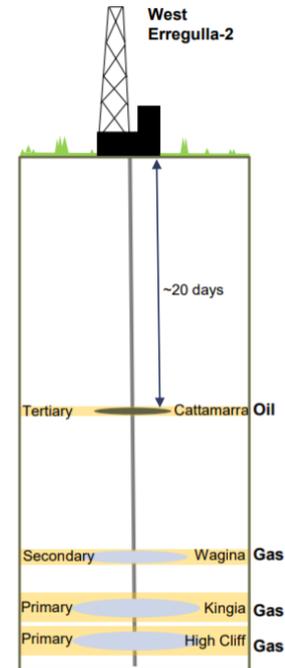
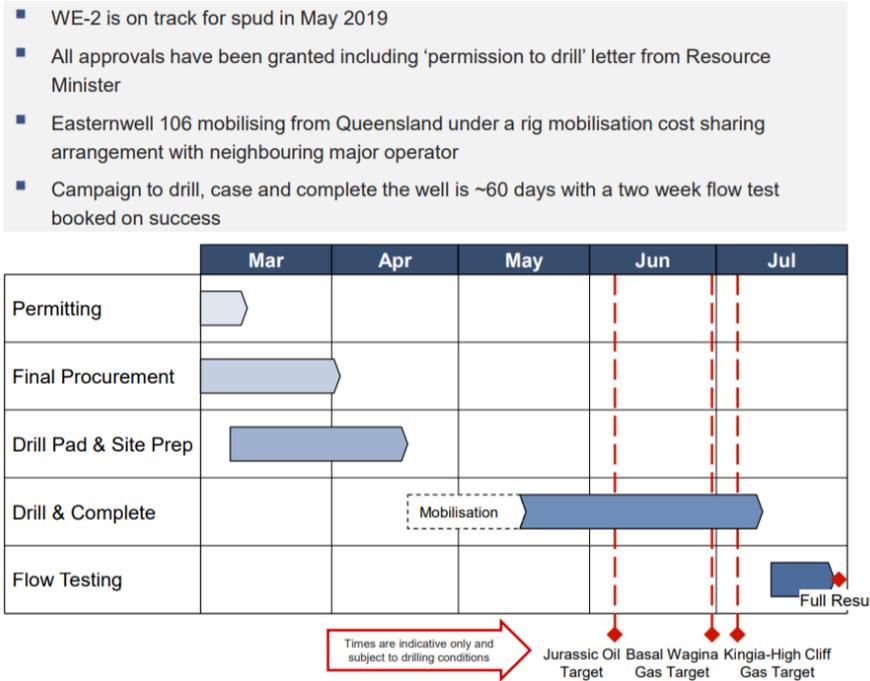
Forecast high probability of success (POS): Warrego's JV partner, Strike Energy (ASX: STX) estimates a 69% POS for West Erregulla-2. Strike's March 2019 quarterly report has provided additional information in support of its view. Whilst in some respects the POS is a moot point - in simple terms gas will either be found or not and the outcome can't be known until after drilling the well - the POS may drive the decision of some investors to participate pre-drill or not and will be of interest to industry participants. Strike's key points include:

- Charge:** the gas in the KHC formations at Waitsia comes from the same source as the gas in the Dongara tight sands in West Erregulla-1, drilled in 1990, increasing the probability that the underlying KHC at West Erregulla will also have received this charge.
- Seal:** the seismic suggests shale or tight gas silts above the KHC and the presence of gas in the Dongara sands in WE-1 is an indirect indicator of a seal for the underlying KHC.
- Trap:** WE has the same trapping geometry as Waitsia and flat spots on seismic are potential direct hydrocarbon indicators. The amplitude of the seismic signals aligns with the trap structure.
- Reservoir:** Reservoir quality is believed to improve as one moves south-east towards the depo-centre of the basin, due to the presence of chlorite and illite coatings on the sand grains, which preserved porosity over geological time. Waitsia-4, the deepest and most eastern Waitsia well, had the highest flow rate and best quality reservoir quality. Irwin-1, the furthest eastern penetration, found the deepest high quality Kingia formation. Strike contends that flat spots seen on seismic (interpreted as the gas water contacts) would not develop in low porosity rocks. Beach Energy and Mitsui are also drilling 800m deeper than Waitsia (to 4,500m) looking for the same quality KHC targets under the Beharra Springs gas field.

Next steps: spud of WE-2 late May; total depth expected mid-late July, testing late July/August. WE-2 will be followed by Beach/Mitsui Beharra Springs Deep (BSD) well testing the same formations.

Disclosure: K1 Capital prepared a commissioned research report on Warrego Energy in March 2019 and received a fee for preparing this report. Author: John Young, jayoung@k1capital.net.au

Figure 1 West Erregulla-2 drilling schedule



Source: Strike Energy Limited, April 2019 Activities Update, 3rd April 2019, p 12

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