

# Warrego Energy Limited (ASX: WGO)

Drilling update 29<sup>th</sup> July – gas flow from Wagina target

## Overview

The West Erregulla-2 well was at 2,229 m as of 29<sup>th</sup> July, having completed the second intermediate section and reporting continuous strong gas shows throughout the Wagina section. The well is being logged prior to casing and drilling on to the main Kingia and High Cliff targets at ~4,700m. Our analysis of market pricing continues to show Warrego is a cheaper entry into the WE-2 prospect, with an Enterprise Value to Prospective Resource multiple of \$0.22-0.24/GJ, relative to Strike at \$0.24-0.42/GJ. We have adjusted our base case valuation to \$0.28/share, reflecting what we consider to be a discovery at the Wagina target, and retain our estimate of upside potential on exploration success of \$0.63/sh., pending conclusion of drilling.

## Key points

**Waitsia analogue:** Warrego has a 50% non-operated interest in EP 469, adjacent to the large (786 bcf gross 2P) Waitsia gas project (Beach/ Mitsui), ~300 km north of Perth. The West Erregulla-2 well is targeting the same formations that are productive at Waitsia. Gross mid-case resource estimates range from 377-1,163 bcf, depending upon the assessor.

**Drilling progress:** The well is currently at 4,229m, at the bottom of the second intermediate section. Strong gas shows were recorded through the Wagina formation, first encountered at 4,102m. Logging is expected to take between 24 and 48 hours, dependent on the number of logs selected.

**Wagina is now a likely “discovery”:** Although the Wagina (and other shallower formations of interest) has not yet been logged, the presence of strong continuous gas shows, gas flared to surface and observations of clean porous sandstone in cuttings suggest the Wagina is likely to be productive. The market’s reaction supports this view, with strong share price increases for both Warrego and Strike, but also probably anticipating a higher chance of success for the main Kingia and High Cliff formations yet to be intersected. We have revised our geological probability of success for the 247 bcf Wagina target from our pre-drill level of 12% to 100%, while retaining our commercial probability of success of 60%. Our base case valuation increases to \$0.28/sh (prev. \$0.17/share).

**Warrego is still the cheaper entry into West Erregulla-2:** Our analysis indicates the market is valuing Warrego’s interest in WE-2 at \$0.22-0.24/GJ, depending upon the value ascribed to Warrego’s other projects. We estimate the market is valuing Strike at \$0.24-0.42/GJ, with the lower range assuming material value ascribed to Strikes Southern Cooper Basin Gas Project and other Perth Basin interests, and the higher range if all value is ascribed to WE-2.

**Near term news flow:** Strike, as operator, is following an event-driven cycle. The next report is likely to be later this week after logging is completed. We think TD (5,200 m) is unlikely to be reached until mid-August, to be followed by approximately two weeks of testing.

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## SHARE PRICE PERFORMANCE



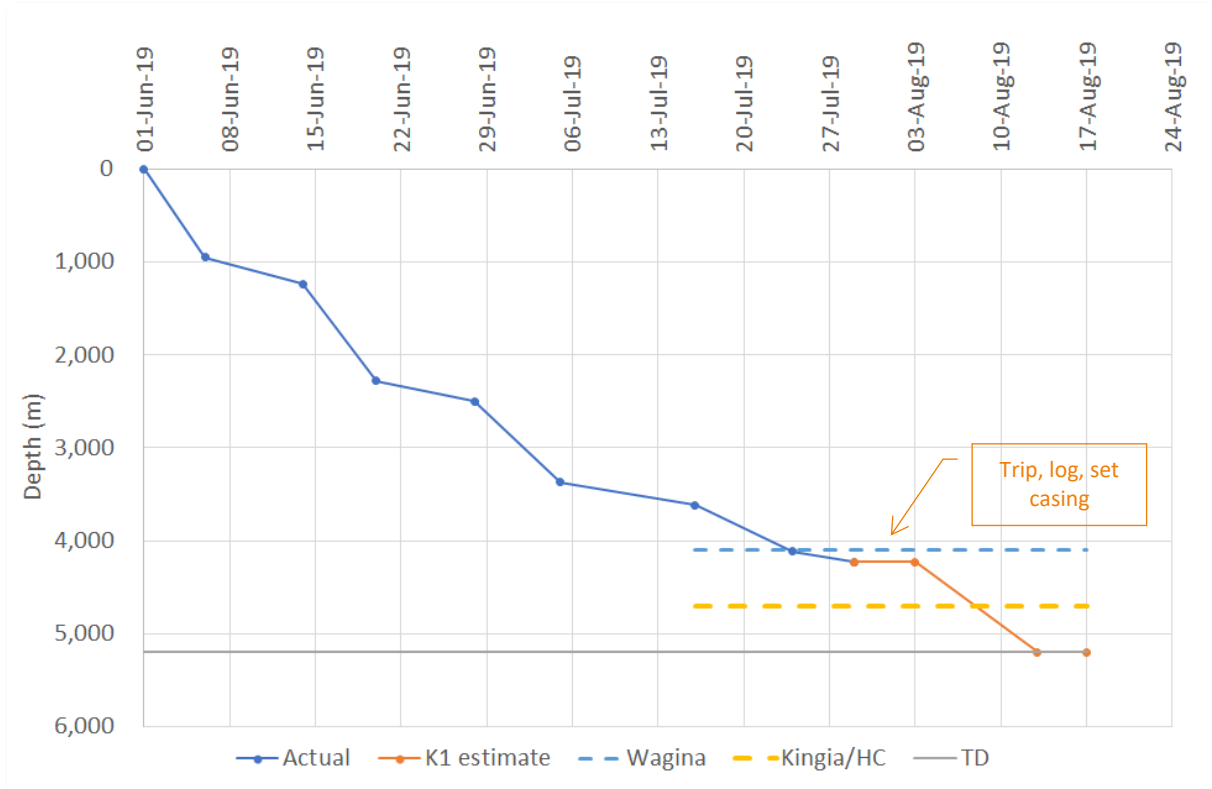
Closing price as of 29<sup>th</sup> July 2019,

CAPITALIZATION	
Last price	\$0.017
52-week range	\$0.078-0.200
Capitalization	\$112m
Cash: 31 Mar*	\$4m
Debt: 31 Mar*	\$5m
EV	\$111m
Shares	660.0m
Options/rights	7.7m
Conv Notes	~10m
Balance date	June
RESERVES AND PRODUCTION	
1P (30 Jun 19)	0.00 MMboe
2P “	0.00 MMboe
3P “	0.00 MMboe
2C “	0.00 MMboe
FY17a	0.00 MMboe
FY18e	0.00 MMboe
FY19e	0.00 MMboe
SHAREHOLDERS (%)	
Board	59.9
* excludes \$6.6m placement+SPP June Debt expected to be zero at 30 June.	
LEADERSHIP	
Chairman	Greg Columbus
MD/CEO	Dennis Donald

Disclosure: This is a commissioned research report and K1 Capital will receive a fee for preparing this report.

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Figure 1 Estimated time-depth curve for West Erregulla-2 as of 29<sup>th</sup> July 2019



Source: Actual data from company announcements, forecast from K1 Capital estimate

Figure 2 Comparative valuation metrics: Warrego - Strike

Description	units	WGO Warrego	STX Strike	Comment
<b>Capital structure</b>				
Shares on issue	000,000	624.3	1,550.3	as of 29 Dec 2019
Shares to be issued	000,000	43.1		remaining shares to be issued to D Donald, D MacNiven
Options	000,000	7.0	34.4	assume all exercised (STX milestone options at 3.33%)
Performance rights	000,000	0.8	7.3	assume all vested
Converting notes	000,000	7.4	0.0	~\$1m at 20% discount to share price
Diluted shares	000,000	682.5	1,592.0	
<b>Enterprise Value</b>				
Current share price	\$/sh	0.170	0.125	29 Jul 2019 closing price
Market capitalization	\$m	<b>116.0</b>	<b>199.0</b>	assuming fully diluted
Cash	\$m	4.3	7.2	31 Mar 2019
Debt	\$m	0.0	7.8	31 Mar 2019
Expected expenditure	\$m	-3.2	-12.3	June quarter, per March quarterly
Gas offtake option fee	\$m		5.0	ASX release, 29 May 2019
Capital raised	\$m	6.2	11.3	after estimated costs
Cash from options	\$m	0.9	4.8	
EV	\$m	<b>113.8</b>	<b>198.7</b>	estimated as of 29 Jul 2019, fully diluted
<b>Main assets</b>				
PEL 94 (SA Cooper Basin)	%		35.0	
PEL 95 (SA Cooper Basin)	%		50.0	
PEL 96 (SA Cooper Basin)	%		67.0	Southern Cooper Basin Gas Project (Jaws)
EP 469 (onshore Perth Basin)	%	50.0	50.0	West Erregulla-2
EP 447, etc (onshore Perth Basin)	%		100.0	Walyering
STP-EPA-0127 (onshore Perth Basin)	%	100.0		
Tesorillo (Spain)	%	85.0		
Salto and Piedra Sola (Uruguay)	%	41.0		
<b>Reserves and resources (net)</b>				
1P	PJ			
2P	PJ			
3P	PJ			
1C	PJ		95	SCBGP and Ocean Hill
2C	PJ		480	"
3C	PJ		982	"
Prospective (WE-2) - low	PJ	317	317	WE-2 per STX, 14 Jan 2019
Prospective (WE-2) - best	PJ	478	478	"
Prospective (WE-2) - high	PJ	677	677	"
Memo: 2P+2C	PJ	0	480	
<b>Estimated value attributed to WE-2</b>				
EV for whole company	\$m	<b>113.8</b>	<b>198.7</b>	from above
less SCBGP	\$m		-69.0	per STX commissioned research report, Jan 2018
less UIL Perth Basin assets	\$m		-13.4	UIL mid-case independent expert's valuation
less other Perth Basin assets (Palatine)	\$m	-0.3		at estimated farm-in value
less Spain	\$m	-3.9		"
less Uruguay	\$m	-5.0		"
= value attributed to WE-2	\$m	<b>104.6</b>	<b>116.3</b>	
<b>Resource metrics</b>				
EV/(2P+2C) - whole company	\$/GJ	0.00	0.41	
EV/Prosp - WE-2 (whole company EV)	\$/GJ	0.24	0.42	if negligible value assigned to projects other than WE-2
EV/Prosp - WE-2 (attributed EV)	\$/GJ	0.22	0.24	

Source: K1 Capital analysis. Market Capitalization and EV based on all options and performance rights being issued (other than Strike milestone options assumed at 3.33% probability per UIL Target's Statement).

Figure 3 Base case valuation summary

NPV @ 10.0% WACC+country factor Valuation as of 30 Jun 2019	Net volume mmboe	NPV value \$/US/boe	Risk factor %	Risked value M\$A	Risked value \$/A/sh	Unrisked value \$/A/sh	WACC %	Risked value \$/A/sh
<b>Projects (DCF model valuation)</b>	<b>0.0</b>			<b>0</b>	<b>0.00</b>	<b>0.00</b>		
Lochend Cadium tight oil	0.0	19.20	20	0	0.00	0.00	10.0	
<b>Exploration / Appraisal</b>	<b>245.2</b>			<b>187</b>	<b>0.26</b>	<b>2.25</b>		
EP 469 discovered gas	6.1	-	2	-	-	-		
West Erregulla Deep - Wagina	21.1	4.80	60	87	0.12	0.20		
West Erregulla Deep - Kingia	38.7	4.80	13	33	0.05	0.36		
West Erregulla Deep - High Cliff	39.4	4.80	7	19	0.03	0.37		
EP 469 Jurassic oil	9.4	7.90	8	9	0.01	0.15		
STP-EPA-0127	-	-	-	0	0.00	0.00		
Tesorillo (Spain) conv. gas	73.9	5.80	5	31	0.04	0.84		
Uruguay conventional	56.5	3.05	4	8	0.01	0.33		
<b>Other (corporate, cash, debt, etc)</b>				<b>14</b>	<b>0.02</b>	<b>0.02</b>		
Corporate costs				-4	-0.01	-0.01		
Hedging & Investments				-	-	-		
Franking credits (@ 0 %)				-	-	-		
Cash				11	0.01	0.01		
Additional Equity				6	0.01	0.01		
Debt				-0	-0.00	-0.00		
Minorities / Other				2	0.00	0.00		
<b>Equity Valuation @ base case</b>	-			<b>201</b>	<b>0.280</b>	<b>2.25</b>	0.17	
Equity Valuation @ spot prices @ \$US64/bbl real Brent & 0.69 f				-	-	-	0.00	
<b>Mkt Cap @ current share price</b> (and undiluted share count)				<b>112</b>	<b>0.170</b>			
<b>Total shareholder return (%)</b>					<b>n/a</b>			
Number of shares (undiluted)	000,000			660.0				
Number of shares (diluted)	000,000			728.0				

0.69 USD: AUD spot and 0.70 USD: AUD long term exchange rate

Per share valuation based on estimated post June 2019 capital raising share count of 660m shares plus assumed remainder of notional \$10m total equity raising in 2019 (\$3.4m) (referenced in Petrel Energy Limited's reverse takeover company documentation), plus unlisted May 2021 options (7.0m). Excludes additional equity for West Erregulla appraisal on exploration success. Diluted share count has reduced from the previous report (745m) due to assumed higher share price at which remaining capital is raised.

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