

Warrego Energy Limited (ASX: WGO)

Drilling update 12th August –Wagina gas discovery update

Overview

As we previously anticipated, Strike, as JV operator of the West Erregulla-2 well, has declared a gas discovery in the Wagina sandstone. It upgraded the Wagina net reservoir to 10.2 m based on log interpretation, with porosities of up to 14% in the upper zone, noting the analogy to the Beharra Springs gas field, 9 km from WE-2. Regardless of whether further discoveries are made in the Kingia/High Cliff formations, we believe WE-2 is likely to deliver a commercial discovery. We retain our base case valuation of \$0.28/sh. on the pre-drill estimate of 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 resource assessor.

Drilling progress: The well is currently beyond ~4,300 m, in the Carynginia Shale, above the primary Kingia/High Cliff gas targets starting at 4,700 m. We expect rates of penetration will have slowed through the shale, with the Kingia now anticipated to be penetrated in mid to late August, with TD of 5,200 m not reached until early to mid-September, ~1 month longer than initially planned. Based on recent quarterly reports we expect the gross well cost will approach \$18-20m, with Warrego contributing \$4-5m, leaving a September quarter closing cash balance of ~\$2m.

Beharra Springs analogy: The Beharra Springs and associated gas fields (Beharra Springs North, Redback and Tarantula) were discovered from 1991 to 2007, at depths of 3,270-3,870 m. The Beharra Springs field itself has produced over ~90 bcf, with production peaking at ~30 TJ/d in the late 1990's, before declining to less than 1 TJ/d in recent years (combined production from all fields is <20 TJ/d), with ~1.9 bbl condensate/mmscf gas. The Wagina gas column at WE-2 is about twice as thick as the Beharra Springs fields (79 m vs ~40 m), has higher porosity (14% vs 9.5%) and is at higher pressure (~6,800 psi vs ~5,800 psi), suggesting West Erregulla well performance should be at least as good.

Next steps: The JV has elected to drill on to the primary Kingia/HC targets. Should logging indicate the Kingia/HC are gas bearing those formations will be flow tested. Testing of the Wagina formation will likely be deferred to a subsequent well, along with booking of a contingent resource. Both Warrego and Strike will need additional capital for further appraisal. We expect future wells will be cheaper, based on learnings from WE-2.

Near term news flow: Strike, as operator, is following an event-driven cycle. The next report is likely to be in late August after the Kingia formation is penetrated.

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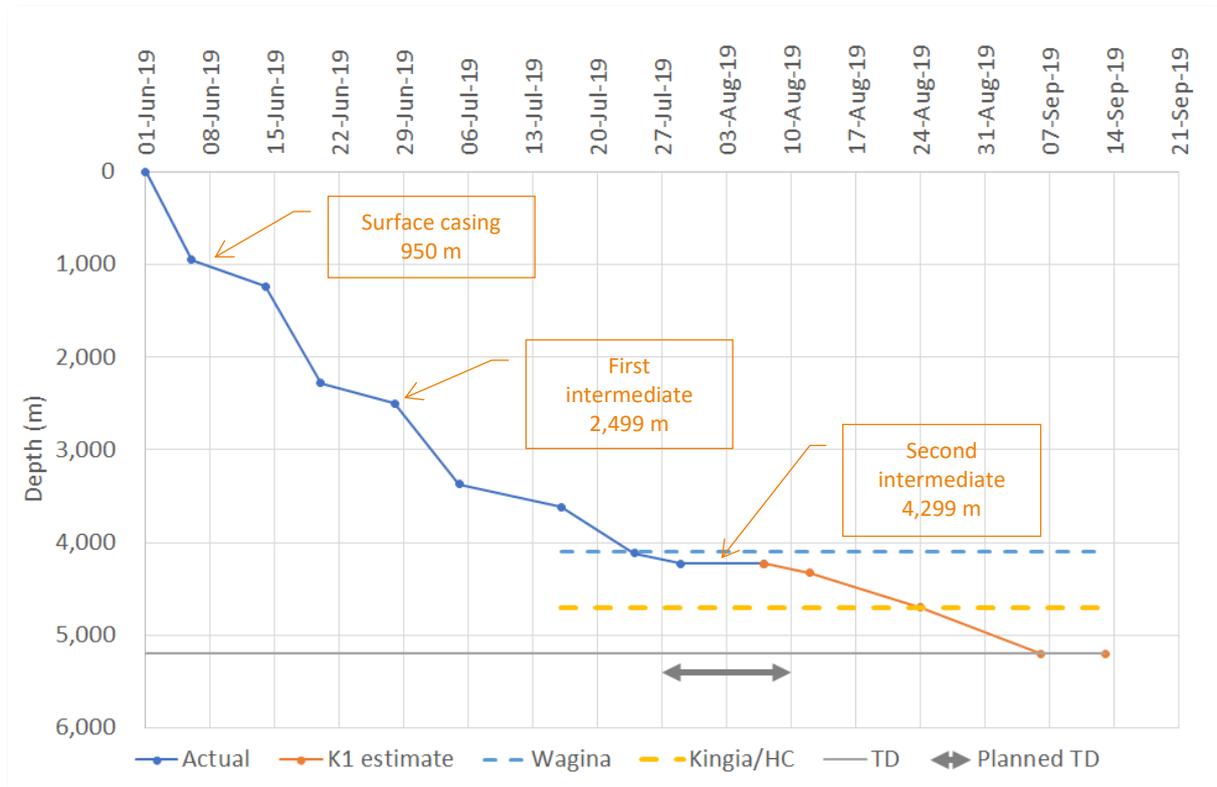
Closing price as of 12th August 2019

CAPITALIZATION	
Last price	\$0.18
52-week range	\$0.02-0.25
Capitalization	\$112m
Cash: 30 Jun	\$7m
Debt: 30 Jun	\$0m
EV	\$105m
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
* includes shares to be issued to directors	
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 12th August 2019



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

- 1) "Kingia-High Cliff sequence is currently expected to be intersected in mid to late August" per Warrego's June 2019 Quarterly Activities Report
- 2) Well depth not disclosed in Strike's 12 August 2019 drilling report. Only reference was that an "additional 5 metres of gas bearing Wagina sands drilled since last update".
- 3) Actual spud date not disclosed; assumed spud date of 1st June 2019 per Strike's 31st May 2019 ASX release.
- 4) Planned drilling campaign of 8-10 weeks per Warrego's "West Erregulla-2 Update & Capital Raising" presentation, 31st May 2019.

Figure 2 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 %	Risk value M\$A	Risk value \$/A/sh	Unrisked value \$/A/sh	WACC %	Risk value \$/A/sh
Projects (DCF model valuation)	0.0			0	0.00	0.00		
Lochend Cadium tight oil	0.0	19.20	20	0	0.00	0.00	10.0	
Exploration / Appraisal	245.2			187	0.26	2.25		
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		
Other (corporate, cash, debt, etc)				14	0.02	0.02		
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		
Equity Valuation @ base case	-			201	0.280	2.25	Previous 0.17	
Equity Valuation @ spot prices @ \$US64/bbl real Brent & 0.69 f				-	-	-	0.00	
Mkt Cap @ current share price (and undiluted share count)				112	0.170			
Total shareholder return (%)					n/a			
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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1.1 Appendix 1

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