

Warrego Energy Limited (ASX: WGO)

Drilling update 23rd August – Kingia formation intersected

Overview

Strike reported this morning that the West Erregulla-2 well had intersected the primary target, the Kingia formation, encountering elevated gas levels and clean sands with evidence of chlorite coating. This type of coating was responsible for preserving reservoir porosity at the nearby Waitsia discovery and is expected to provide the same benefit at WE-2. Initial logging while drilling results should be available early next week. Following a bit change the well will drill the remainder of the Kingia formation, then press on to the High Cliff. We retain our base case valuation of \$0.28/sh. and estimate of upside potential on exploration success of \$0.63/sh.

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 at 4,800 m, approximately half-way through the Kingia formation, intersected at 4,761 m. The most productive parts of the Kingia are expected in the bottom 25%, based on the Waitsia field. Evidence of multiple drilling breaks (i.e. changes in rate of penetration of drilling, pointing to intersection of sands), elevated mud gas readings and clean sands in cuttings is directionally positive. The LWD results for this upper part of the Kingia will be recovered when the bottom hole assembly is retrieved during the bit change. We would expect initial results will be released early next week.

Next steps: Drill assembly life at the current depths is relatively short and the JV is currently pulling out of hole to replace the bit and down hole motor. Round trip time at these depths is approximately 3 days. The remainder of the Kingia and much of the Bit Basher shale below should be drilled on the next run, enabling the LWD tool behind the drill bit to log the remainder of the Kingia and confirm the presence or otherwise of a gas discovery. We would expect the second part of the primary target, the High Cliff formation, to be intersected in early September, with flow testing to follow.

Near term news flow: Strike, as operator, is following an event-driven cycle. The next report is likely to be early next week regarding initial results of the upper Kingia formation and drilling progress.

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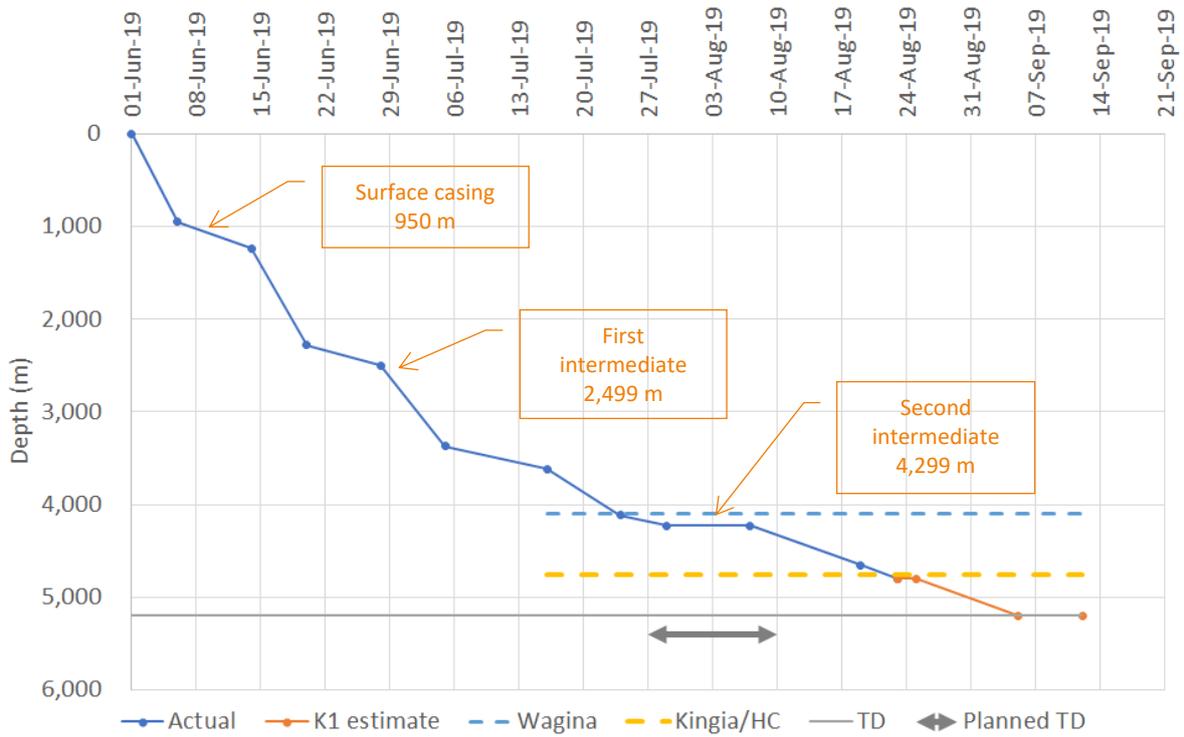
Closing price as of 22nd August 2019

CAPITALIZATION	
Last price	\$0.195
52-week range	\$0.02-0.25
Capitalization	\$129m
Cash: 30 Jun	\$7m
Debt: 30 Jun	\$0m
EV	\$122m
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.

Author: John Young
jayoung@K1capital.net.au

Figure 1 Estimated time-depth curve for West Erregulla-2 as of 23rd 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 2010 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 %	Risked value M\$A	Risked value \$/A/sh	Unrisked value \$/A/sh	WACC %	Risked 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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