

# Warrego Energy Limited (ASX: WGO)

West Erregulla – 1.2 tcf 2C Contingent Resources

## Overview

Warrego's joint venture partner, Strike Energy, has announced a gross 2C contingent resource estimate for the Kingia and High Cliff portion of the West Erregulla gas discovery of 1,185 bcf, approximately 50% larger than Beach and Mitsui's nearby Waitsia gas field. A further 273 bcf is expected in the Wagina formation at WE that has not yet been tested. WE is one of the largest onshore conventional gas discoveries in Australia which should result in a low production cost when developed. We have increased our base case valuation to \$0.67/sh (prev. \$0.63/sh) with further upside as commercial derisking occurs.

## Key points

**Large contingent resource:** The gross contingent resource assessment ranges from 993 bcf 1C to 1,409 bcf 3C, with a mid-case (2C) of 1,185 bcf for the Kingia and High Cliff formations, with 85% in the Kingia. The resource assessment has been developed by Igesi Consulting, a long-term consultant to Strike. The gas volumes are classified as contingent resources rather than reserves because a development plan has not been finalized.

**Comparison with Waitsia:** The 2C resource at WE is ~50% larger than the combined 2P reserves and 2C resources at Waitsia of 786+87 bcf in AWE's February 2018 Target's Statement by RISC Advisory. However, Strike has assumed a gas recovery of 85%, higher than RISC's assessment of 65%. Hence the gas in place estimates are similar (1,396 bcf for WE and 1,339 bcf for Waitsia). A recovery of 85% for a closed gas system does not appear unreasonable, although this might be reduced if water drive is present. In addition to the Kingia and High Cliff gas WE also has gas in the Wagina formation, which was not present at Waitsia.

**Comparison versus pre-drill:** The 1,185 bcf 2C case is 29% higher than Strike's pre-drill estimate of 916 bcf in the Kingia and High Cliff, with the Kingia (1,004 bcf) more than double the pre-drill estimate (454 bcf), while the High Cliff (213 bcf) is slightly less than half the pre-drill estimate (462 bcf). The Wagina mid-case gas resource was increased slightly, from 247 bcf to 273 bcf, but is still classed as prospective due to limited data.

**Next steps:** The WE JV has completed WE-2 as a future gas producer and is now preparing for additional seismic and appraisal drilling in 2020. Strike expects first gas from initial development of the WE field could be achieved in 2022.

**Upside potential:** The gas discoveries at Waitsia, West Erregulla and recently at Beharra Springs Deep by Beach and Mitsui point to a multi-tcf conventional gas fairway. These fields should have low costs of production and may provide the foundation for large scale downstream projects. We believe the scale and quality of the resources is likely to attract the interest of larger energy companies.

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## SHARE PRICE PERFORMANCE



Closing price as of 8<sup>th</sup> Nov 2019

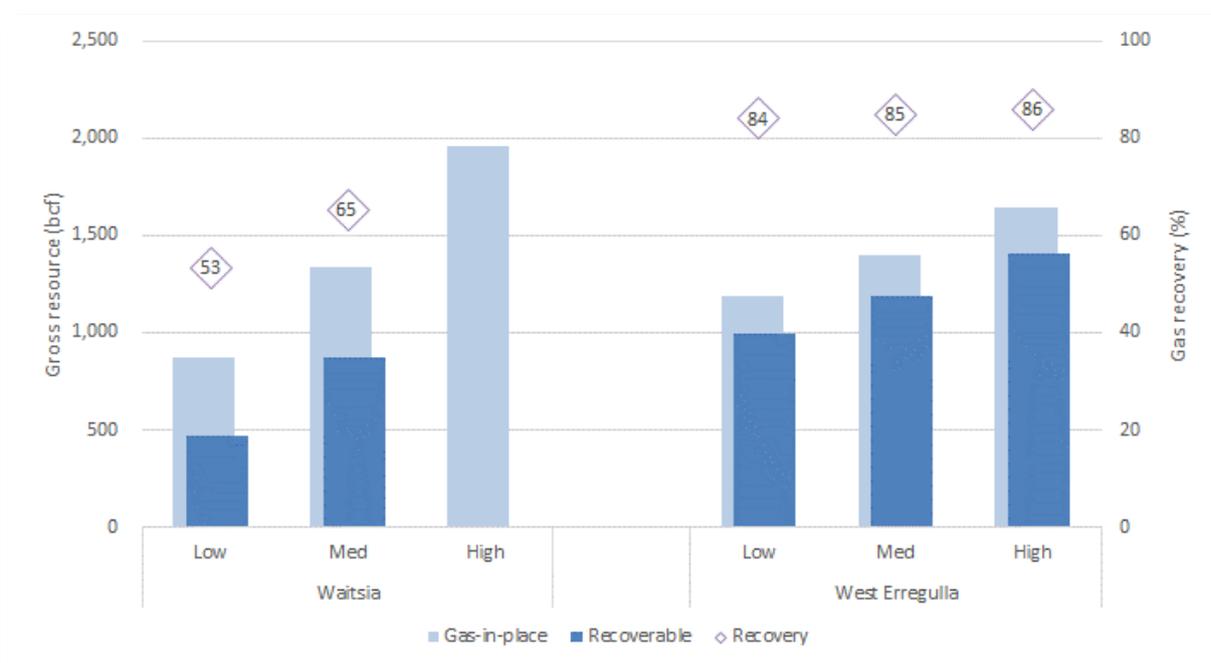
CAPITALIZATION	
Last price	\$0.27
52-week range	\$0.02-0.42
Capitalization	\$191m
Cash: 30 Sep	\$13.5m
Debt: 30 Sep	\$0m
EV	\$178m
Shares	708.3m
Options/rights	7.5m
Conv Notes	-
Balance date	June
RESERVES AND PRODUCTION	
1P (30 Jun 19)	0.00 MMboe
2P "	0.00 MMboe
3P "	0.00 MMboe
2C "	0.00 MMboe
FY18a	0.00 MMboe
FY19e	0.00 MMboe
FY20e	0.00 MMboe
SHAREHOLDERS (%)	
Board	~53.1
* includes unissued founders shares	
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 Waitsia – West Erregulla Kingia/High Cliff resource comparison

Item	Units	Waitsia			West Erregulla		
		Low	Med	High	Low	Med	High
<b>Gas-in-place</b>	bcf	<b>877</b>	<b>1,339</b>	<b>1,959</b>	<b>1,184</b>	<b>1,396</b>	<b>1,641</b>
Basal Wagina	bcf						
Kingia	bcf	701	1,039	1,471	1,022	1,183	1,368
High Cliff	bcf	176	300	488	162	213	273
<b>Recoverable</b>	bcf	<b>467</b>	<b>872</b>	<b>0</b>	<b>994</b>	<b>1,185</b>	<b>1,408</b>
Basal Wagina	bcf						
Kingia/ High Cliff	bcf	467	872		858	1,004	1,174
High Cliff	bcf				136	181	234



Source:

- 1) Strike Energy Limited, ASX release, 11<sup>th</sup> November 2019
- 2) AWE Limited, Target's Statement, 21<sup>st</sup> February 2018
- 3) N.b. excludes West Errugulla Wagina formation prospective resource

Figure 2 West Erregulla Wagina prospective resources

West Erregulla Wagina Conventional Gas (BCF) <sup>2</sup>				
Date		P90	P50	P10
20 <sup>th</sup> December 2018	Gross	154	247	372
31 <sup>st</sup> October 2019	Gross	208 (+54)	273 (+26)	363 (-9)
	Net to Strike	104	137	182

Source: Strike Energy Limited, ASX release, 11<sup>th</sup> November 2019. Warrego net share is the same as Strike's.

Figure 3 West Erregulla prospective resource - Strike Energy assessment (pre-drill)

Reservoir	Gross prospective resource (Bscf)			Net attributable (Warrego 50%) (Bscf)		
	Low (P90)	Best (P50)	High (P10)	Low (P90)	Best (P50)	High (P10)
Basal Wagina	154	247	372	77	124	186
Kingia	283	454	670	142	227	335
High Cliff	324	462	627	162	231	314

**Notes**

- 1) These resource estimates are from Strike Energy's 23<sup>rd</sup> January 2019 ASX announcement
- 2) These resource estimates are un-risked
- 3) The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons

Source: Petrel Energy Limited, Notice of Extraordinary General Meeting, 6th February 2019, p 2 of RISC report

Figure 4 Base case valuation summary

NPV @ 10.0% WACC+country factor	Net volume	NPV value	Risk factor	Risk value	Risk value	Unrisked value	WACC	Risk value
Valuation as of 31 Dec 2019	mmboe	\$US/boe	%	M\$A	\$A/sh	\$A/sh	%	\$A/sh
<b>Projects (DCF model valuation)</b>	<b>0.0</b>			<b>0</b>	<b>0.00</b>	<b>0.00</b>		
Lochend Cardium tight oil	0.0	20.35	20	0	0.00	0.00	10.0	
<b>Exploration / Appraisal</b>	<b>213.9</b>			<b>528</b>	<b>0.63</b>	<b>1.97</b>		
EP 469 discovered gas	6.1	-	2	-	-	-		
West Erregulla Deep - Wagina	23.3	5.05	30	50	0.06	0.20		
West Erregulla Deep - Kingia	85.7	5.05	60	369	0.44	0.74		
West Erregulla Deep - High Cliff	15.4	5.05	60	67	0.08	0.13		
EP 469 Jurassic oil	9.4	8.25	8	9	0.01	0.13		
STP-EPA-0127	-	-	-	0	0.00	0.00		
Tesorillo (Spain) conv. gas	73.9	6.05	5	32	0.04	0.77		
Uruguay conventional	-	3.20	4	-	-	-		
<b>Other (corporate, cash, debt, etc)</b>				<b>30</b>	<b>0.04</b>	<b>0.04</b>		
Corporate costs				-6	-0.01	-0.01		
Hedging & Investments				-	-	-		
Franking credits (@ 0 %)				-	-	-		
Cash				9	0.01	0.01		
Additional Equity				26	0.03	0.03		
Debt				-0	-0.00	-0.00		
Minorities / Other				2	0.00	0.00		
<b>Equity Valuation @ base case</b>				<b>558</b>	<b>0.670</b>	<b>2.00</b>	Previous	
Equity Valuation @ spot prices				-	-	-	0.63	
<b>Mkt Cap @ current share price</b>				<b>259</b>	<b>0.365</b>		0.00	
<b>Total shareholder return (%)</b>					<b>n/a</b>			
Number of shares (undiluted)	000,000			708.3	@ valuation date			
Number of shares (diluted)	000,000			834.7				

0.68 USD: AUD spot and 0.70 USD: AUD long term exchange rate. Dilution includes additional equity for West Erregulla appraisal (50% of seismic plus two wells at assumed \$18m each), plus G&A and Tesorillo expenditure commitments. Assumes Uruguay is divested.

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