

Warrego Energy Limited (ASX: WGO)

Rig selection advances West Erregulla appraisal

Overview

Warrego (ASX: WGO) and its JV partner Strike (ASX: STX) have secured the Ensign 970 rig to drill the West Erregulla-3 & 4 wells, with drilling expected to start during 3Q 2020. WE-3 will target the undrilled northern area of the field, with a mid-case pre-drill estimate of 102 bcf gross, which if successful would be a material addition to the 513 bcf in the main field area. WGO estimates a 65% probability of success, given proximity to the WE-2 well drilled last year. Gas commercialization discussions continue and may provide the next material rerating catalyst. We maintain our base case valuation of \$0.26/sh using independent resource estimates, with valuation upside to \$0.46/sh using Strike's resource assessment.

Key points

WE-3 rig selection: The EP469 joint venture (50/50 WGO/STX) has secured the Ensign 970 rig for the upcoming campaign, with the previous rig used to drill the WE-2 well (Easternwell 106) contracted to other parties. The 970 has a similar hook capacity to the 106 and Ensign will undertake upgrades to support the large bore hole diameters required for the West Erregulla appraisal campaign. Experience gained by the JV in drilling WE-2 should result in faster drilling times for this campaign, however, a learning curve will still exist.

Exploration and appraisal focus: WE-3 will target the undrilled northern area of the field, independently estimated to contain 41/102/211 bcf of low/mid/high gross prospective (i.e. not yet discovered) resources, with 75-80% in the high quality Kingia formation. WE-4 will appraise the central area of the field, adjacent to the earlier WE-2 well, which is estimated to contain 213/513/966 bcf gross. Resource size may increase if either WE-3 or 4 establish the location of the gas-water contact (which effectively provides the base of the gas resource). A decision on drilling a further appraisal well, WE-5, also in the central area of the field, will be taken by end-November. A map showing the drilling locations is shown later in this report.

Share price catalysts: A discovery in the northern area of the field and increased confidence in the size of the resource from additional drilling information will be positive catalysts. So too will progress by WGO regarding gas commercialization, with an announcement regarding one or more offtake agreements with quality parties to underpin confidence in future development. The timing of gas sales agreements is difficult to predict but we expect substantial progress will be made before calendar year end. Announced delays to major offshore projects should aid negotiations.

Relative valuation: We believe WGO continues to offer cheaper entry into the WE field than STX, even allowing for STX's operatorship and interest in other Perth Basin acreage, with WGO trading at ~40% of STX on both a market capitalization and equivalent EV basis (per Figure 3 and Table 4 later in this report).

MiFID II compliance statement: Bridge Street Capital Partners have acted as Corporate Advisors to WGO and received fees from WGO for services provided.

SHARE PRICE PERFORMANCE



Closing price as of 16th Jun 2020

CAPITALIZATION

Last price	\$0.15
52-week range	\$0.075-0.42
Capitalization	\$120m
Cash: 31 Mar	\$5.9m
Debt: 31 Mar	\$0m
EV	\$114m
Shares	803.2m
Options/rights	8.1m
Conv Notes	-
Balance date	June

RESERVES AND PRODUCTION

1P (18 May 20)	0.0 MMboe
2P "	0.0 MMboe
3P "	0.0 MMboe
2C "	42.7 MMboe
FY19a	0.00 MMboe
FY20e	0.00 MMboe
FY21e	0.00 MMboe

SHAREHOLDERS (%)

Board	51
Institutions	8
Retail	41
Total	100
* 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.

Author: John Young
jayoung@K1capital.net.au

1. Financial statements

	Units	FY18a	FY19a	FY20e	FY21e	FY22e	Units	FY18a	FY19a	FY20e	FY21e	FY22e	
CPI, forex & prices							P&L M\$A						
US inflation rate	% pa	2.10	2.15	2.20	2.20	2.20	Sales revenue	-	-	-	-	-	
Australian inflation rate	% pa	2.05	2.35	2.50	2.50	2.50	Other revenue	-	-	-	-	-	
Inflation Factor - US	-	0.963	0.984	1.005	1.028	1.050	Production costs	-	-	-0	-0	-0	
\$US/\$A forex (base)	\$US/\$A	0.78	0.72	0.67	0.66	0.69	Royalties & prod purchases	-	-	-0	-0	-0	
Brent	\$US/bbl	63	69	57	41	50	Admin	-2	-3	-4	-4	-4	
Nat Gas (Henry Hub)	\$US/mmBtu	2.9	2.9	2.1	2.5	2.8	Other	-0	-0	0	-	-	
Nat Gas (Wallumbilla)	\$US/mmBtu	6.4	6.9	5.7	4.1	5.0	EBITDA	-2	-3	-4	-4	-4	
Received prices							Deprec & Amort						
Oil	\$US/bbl	36.0	36.5	27.3	11.8	20.7	EBIT	-2	-3	-4	-4	-4	
Condensate	\$US/bbl	-	-	-	-	-	Net Interest Expense	0	-1	-0	-2	-0	
Gas	\$US/mmBtu	2.9	2.9	2.1	2.5	2.8	EBT	-2	-4	-4	-6	-4	
LPG	\$US/bbl	-	-	-	-	-	Tax expense	-	-	1	2	1	
LNG	\$US/t	-	-	-	-	-	Minorities / preferred dividend	9	-	-	-	-	
Electricity	\$US/MWh	-	-	-	-	-	Normalized NPAT	7	-4	-4	-4	-3	
CO2e	\$US/t	-	-	-	-	-	Abnormals	-27	-3	-	2	-	
Total	\$US/boe	28.3	28.6	21.3	12.8	18.9	Reported NPAT	-20	-8	-4	-2	-3	
Net production by project							Effective tax rate %						
WE - tolling (Phase 1)	mmboe	-	-	-	-	-	0.0	0.0	12.4	30.0	30.0	30.0	
WE - tolling (Phase 2)	mmboe	-	-	-	-	-	Cash flow M\$A						
-	mmboe	-	-	-	-	-	EBITDA	-2	-3	-4	-4	-4	
-	mmboe	-	-	-	-	-	Change in work cap	-	-	-	-	-	
-	mmboe	-	-	-	-	-	Deferred tax	-	-	-	-	-	
-	mmboe	-	-	-	-	-	Other operating items (tax, e	1	-0	0	0	0	
-	mmboe	-	-	-	-	-	Operating cash flow	-1	-3	-4	-4	-4	
-	mmboe	-	-	-	-	-	PPE capex	-0	-0	-0	-	-1	
-	mmboe	-	-	-	-	-	Exploration capex	-10	-1	-11	-26	-4	
-	mmboe	-	-	-	-	-	Development capex	-	-	-	-	-0	
-	mmboe	-	-	-	-	-	Other investing items	1	0	-2	4	-	
Lochend Cardium	mmboe	0.00	0.00	0.00	0.00	0.00	Investing cash flow	-8	-0	-13	-22	-5	
Total	mmboe	0.00	0.00	0.00	0.00	0.00	Inc/(Dec) in Equity	5	11	24	21	10	
Net production by product							Inc/(Dec) in Borrowings						
Oil	mmbbl	0.00	0.00	0.00	0.00	0.00	-	0	-0	-	-	-	
Condensate	mmbbl	-	-	-	-	-	Dividends paid	-	-	-	-	-	
Gas	PJ	0.00	0.00	0.00	0.00	0.00	Other financing items	1	-0	-0	0	-1	
LPG	mmbbl	-	-	-	-	-	Financing Cash Flow	6	11	24	21	10	
LNG	Mt	-	-	-	-	-	Net Inc/(Dec) in Cash	-4	7	7	-5	1	
Electricity	TWh	-	-	-	-	-	Free cash flow	-9	-4	-17	-26	-8	
CO2e	Mt	0.00	0.00	0.00	0.00	0.00	Balance sheet M\$A						
Total	mmboe	0.00	0.00	0.00	0.00	0.00	Cash & cash equivalents	0	7	14	10	11	
Total production	kboed	0.00	0.00	0.00	0.00	0.00	Other current assets	0	0	30	38	41	
Production growth	%	-	61.8	18.5	-22.1	-26.4	PPE, Exp & Dev	0	2	12	42	47	
Revenue							Intangible assets						
Oil	M\$A	0	0	0	0	0	-	-	7	7	7	7	
Condensate	M\$A	-	-	-	-	-	Other non-current assets	4	7	0	0	0	
Gas	M\$A	0	0	0	0	0	Total Assets	5	17	64	97	105	
LPG	M\$A	-	-	-	-	-	Short term debt	-	0	-	-	-	
LNG	M\$A	-	-	-	-	-	Other current liabilities	1	3	1	1	1	
Electricity	M\$A	-	-	-	-	-	Long term debt	-	-	0	0	0	
CO2e	M\$A	-	-	-	-	-	Other non-current liabilities	0	0	14	27	28	
Total modelled	M\$A	0	0	0	0	0	Total Liabilities	1	3	16	28	29	
Total reported	M\$A	-	-	-	-	-	Minorities	0	0	0	0	0	
Revenue growth	%	-	0.0	0.0	0.0	0.0	Total shareholders equity (4	14	49	69	76	
Operational metrics							Business metrics						
Revenue	\$A/boe	-	-	-	-	-	EBITDA margin %	-	-	-	-	-	
Production & transpo	\$A/boe	-	-	-	-	-	EBIT margin %	-	-	-	-	-	
Royalties & prod pur	\$A/boe	-	-	-	-	-	Normalized NPA %	-	-	-	-	-	
Admin	\$A/boe	-	-	-	-	-	Revenue growth %	-	-	-	-	-	
EBITDA margin	\$A/boe	-	-	-	-	-	EBITDA growth %	-	31.4	43.7	-9.4	2.6	
D&A	\$A/boe	-	-	-	-	-	EBIT growth %	-	30.3	45.5	-10.7	2.6	
Tax and financing	\$A/boe	-	-	-	-	-	Normalized RO _I %	151.4	-24.6	-5.8	-4.0	-2.6	
Normalized NPAT	\$A/boe	-	-	-	-	-	Normalized ROI %	197.9	-29.9	-7.7	-5.7	-3.6	
Resource/production years	-	-	-	-	-	-	Fully diluted shares (million)	88	609	997	997	997	
Product mix	% liquids	-	-	-	-	-	Wtd diluted shares (million)	74	434	756	997	997	
Change vs. prior report							Leverage						
USD/AUD (average)	\$US/\$A	-	-	-	-	-	Net Debt / Book %	-1	-54	-29	-14	-14	
Brent USD	\$US/bbl	-	-	-	-	-	Net Debt / (ND+ %	-1	-117	-41	-16	-16	
Brent AUD	\$A/bbl	-	-	-	-	-	Net Debt / Total %	-1	-44	-22	-10	-10	
Production	mmboe	-	-	-	-	-	EBIT Interest c/x	-	-2.4	-81.6	-2.0	-413.5	
Revenue	\$m	-	-	-	-	-	Debt / Free Cas x	-	-0.0	-0.0	-0.0	-0.0	
Cash opex (-ve = inc)	\$m	-	-	-	-	-	Valuation metrics						
EBITDA	\$m	-	-	-	-	-	Norm. EPS	c/sh	9.5	-0.9	-0.5	-0.4	-0.3
Normalized NPAT	\$m	-	-	-	-	-	EPS growth	%	-	-110	-47	-20	-31
Cash (YE)	\$m	-	-	-	-	-	PER	x	1.6	-16.0	-30.4	-38.0	-55.3
Debt (YE, +ve = inc.)	\$m	-	-	-	-	-	Op Cash flow	c/sh	-1.2	-0.8	-0.5	-0.4	-0.4
Capex (+ve = inc.)	\$m	-	-	-	-	-	Price/Op Cash x	-	-12.9	-19.9	-30.0	-42.1	-40.2
							EV/EBITDA	x	-	-	-	-	-

Source: company data and K1 Capital forecasts

\$A currency unless otherwise noted. Nominal \$ basis. Year ending June.

2. Valuation

2.1.1 Valuation cases

Our valuation cases are unchanged from our research report of 18th May 2020. Our base case builds on WGO's independent resource assessment of 18th May. Our valuation increases significantly if Strike's resource assessment estimates for WE apply.

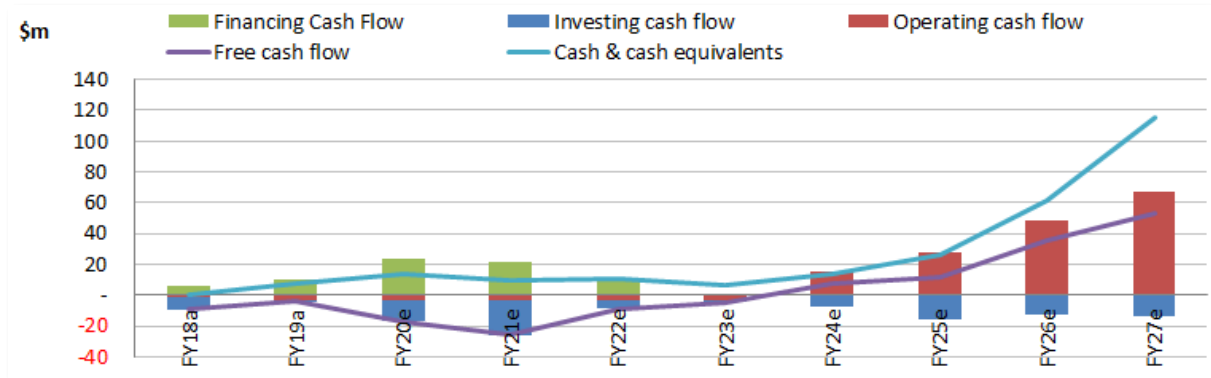
Table 1 Warrego valuation scenarios

Case	Description	\$A m	\$A/share
Base	WE phased development ~700 bcf gas (gross) two phase development, \$5/GJ real domgas pricing, toll processing. Phase 1 at 50 TJ/d from 2023 supported by Kingia 2C resources, 70% project risk factor. Phase 1+2 at 125 TJ/d from 2026 supported by Kingia 3C resources, Phase 2 50% project risk factor.	259	0.26
B1	WE Strike 2C resources Base case with ~1,187 bcf Kingia/HC 2C resources, ~200 TJ/d Phase 2 from 2026 (at same 70% risk factor as Phase 1), 273 bcf Wagina 2U.	447	0.46
B2	WE own processing Base case + \$760m capex (excluding abandonment) for processing and compression	210	0.21
Upside	WE LNG netback pricing Base case with gas sales at LNG netback pricing (\$US65/bbl Brent, 12% slope, equivalent to ~\$7-8/GJ received)	345	0.35

* If WE were to be developed by the owners of the NWS JV supply optimization of the Dampier Bunbury Pipeline could deliver additional value, equivalent to a further ~\$0.04/sh.

Estimated fully diluted share count = 996m shares.

Figure 1 Near term cash flows (Base case)



Source: K1 Capital analysis

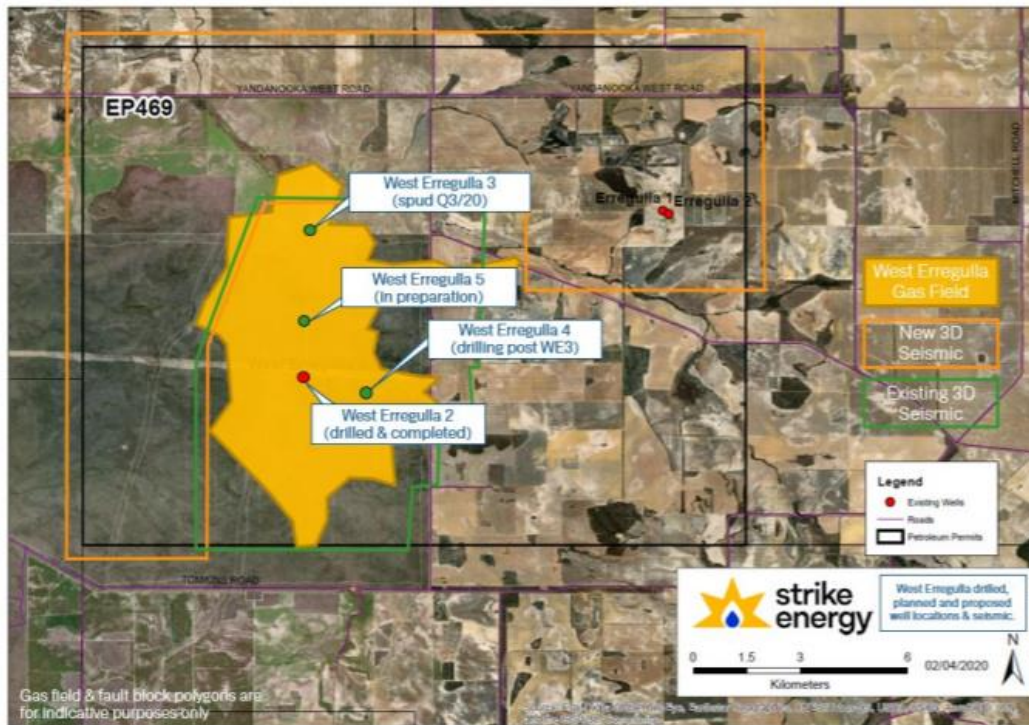
WGO's recent capital raising (\$15m two tranche placement at \$0.13/sh announced 25th May 2020) fully funds the drilling of WE-3 and long lead items for WE-4. Additional funds will be required prior to year-end to complete WE-4, as well as WE-5 should it proceed, and to fund the acquisition and processing of additional 3D seismic in 1H 2021.

Table 2 Base case valuation summary (gas tolling for domgas supply)

NPV @ 10.0% WACC+country factor	Net volume	NPV value	Risk factor	Riskd value	Riskd value	Unriskd value	Project WACC	Riskd value
Valuation as of 31 Dec 2019	PJe	\$/GJ	%	M\$A	\$/sh	\$/sh	%	\$/sh
Projects (DCF model valuation)	343.7			154	0.15	0.27		
WE - tolling (Phase 1)	174.0	0.72	70	83	0.08	0.13	10.0	
WE - tolling (Phase 2+)	169.7	0.84	50	71	0.07	0.14	10.0	
Lochend Cardium tight oil	0.0	2.73	20	0	0.00	0.00	10.0	
Exploration / Appraisal	671.0			87	0.09	0.91		
EP 469 discovered gas	37.6	-	2	-	-	-		
West Erregulla - Dongara	32.9	1.17	30	12	0.01	0.04		
West Erregulla - Wagina	12.0	1.17	30	4	0.00	0.01		
West Erregulla - High Cliff	37.6	1.17	30	13	0.01	0.04		
EP 469 Jurassic oil	57.5	1.96	8	9	0.01	0.11		
STP-EPA-0127	-	-	-	0	0.00	0.00		
Tesorillo (Spain) conv. gas	452.1	1.43	5	33	0.03	0.65		
El Romeral	-	-	-	1	0.00	0.00		
Other (corporate, cash, debt, etc)				18	0.02	0.04		
Corporate costs				-31	-0.03	-0.03		
Hedging & Investments				0	-	-		
Franking credits (@ 0 %)				0	0.00	0.02		
Cash				9	0.01	0.01		
Additional Equity				38	0.04	0.04		
Debt				-0	-0.00	-0.00		
Minorities / Other				1	0.00	0.00		
Equity Valuation @ base case	-			259	0.260	1.22	Previous	
Equity Valuation @ spot prices	@ \$US40/bbl real Brent & 0.69 f			-	-	-	0.26	
Mkt Cap @ current share price	(and undiluted share count)			120	0.150		0.00	
Total shareholder return (%)					n/a			
Number of shares (undiluted)	000,000			803.2	@ 16 Jun 2020			
Number of shares (diluted)	000,000			996.5	for fully funded development			

- 0.69 USD: AUD spot and 0.70 USD: AUD long term exchange rate.
- Dilution includes additional equity for West Erregulla appraisal (WE-3, 4 & 5) and future field development, plus G&A and Tesorillo / El Romeral expenditure commitments. Assumes Uruguay is divested.
- Assumes WE gas processing, compression and transmission is provided on a tolling basis by a third party, reducing total capex required for field development.

Figure 2 West Erregulla drilling locations



Source: Strike Energy Limited, ASX release, 15th June 2020, p 2

3. Relative valuation

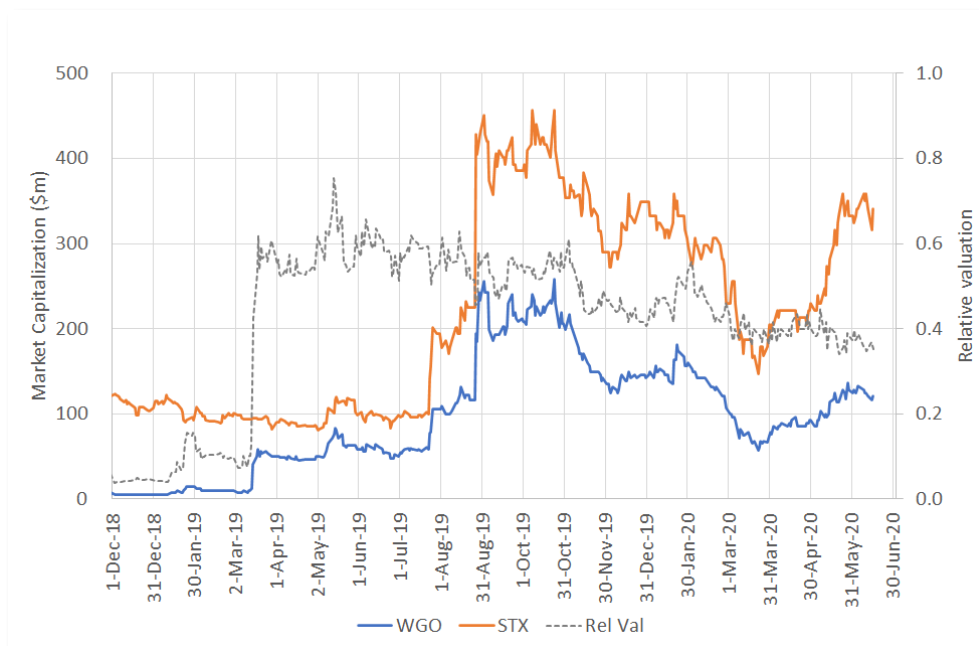
The market continues to value Warrego at a discount to Strike. In market capitalization terms Warrego trades at approximately 40% of Strike’s value (i.e. a discount of ~60%), despite both companies having a 50% share in the same principal asset (West Erregulla), as shown in Figure 3 below. Whilst Strike has operatorship of the asset and adjacent acreage the difference appears to be more than expected.

Further analysis, shown in Table 4 below, indicates that Warrego trades at a discount of approximately ~60% to Strike on an Enterprise Value basis, after adjusting for other assets based on public valuation estimates. This would appear to be an unreasonably high premium to assign for operatorship alone.

In simple terms, the market appears to be assigning significant value to Strike’s adjacent Perth Basin exploration acreage, greater than even the upside value determined for these properties by the independent expert as part of Strike’s acquisition of UIL in 2018. The two companies trade approximately at parity on an EV to resource multiple (~\$0.17/GJ) if one bases the comparison on Strike’s WE 2C resource estimate and includes a contribution from expected resources in adjacent Perth Basin exploration acreage (South Erregulla and Waylaring) for STX and Spain (Tesorillo) for WGO.

In effect this implies the market assigns the same value to discovered resources in West Erregulla to undiscovered Perth Basin gas, discovered but undeveloped Southern Cooper Basin Gas Project (SCBGP) and undiscovered gas in Spain. However, these assets are unlikely to attract the same resource valuation, with undiscovered Perth Basin gas likely to be discounted for time value for later development than WE (assuming future exploration is successful) and uncertainty regarding the future development of Strike’s Southern Cooper Basin CSG or Warrego’s exploration assets in Spain.

Figure 3 Relative market capitalization of Warrego and Strike



Source: K1 Capital analysis of ASX data

Table 3 Warrego and Strike comparison - reserves and resource summary

Description	units	Warrego WGO	Strike STX	Merged	Comment
Main assets					
EP 469 (onshore Perth Basin)	%	50.0	50.0		West Erregulla (WE)
EP 82, 98, 99 (onshore Perth Basin)	%		100.0		South Erregulla, etc
EP 447, etc (onshore Perth Basin)	%		100.0		Walyling, Ocean Hill, etc
STP-EPA-0127 (onshore Perth Basin)	%	100.0			
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)
Tesorillo (Spain)	%	85.0			->50.1
El Romeral (Spain)	%	50.1			
Reserves and resources (net)					
1C	PJ	2	95	97	WGO: El Romeral; STX: SCBGP and Ocean Hill
2C	PJ	3	479	481	"
3C	PJ	4	979	983	"
1C (WE) - STX assessment	PJ	517	517	1,034	WE-2 per STX, 11 Nov 2019
2C (WE) - STX assessment	PJ	616	616	1,233	"
3C (WE) - STX assessment	PJ	732	732	1,465	"
1C (WE) - RISC assessment	PJ	111	111	222	WE-2 per RISC, 18 May 2020
2C (WE) - RISC assessment	PJ	267	267	534	"
3C (WE) - RISC assessment	PJ	502	502	1,005	"
2U Prospective (WE) - RISC assessment	PJ	34	34	69	WE-2 per RISC, 18 May 2020, 65% POS
2U Prospective (prospects)	PJ	0	882	882	WGO: Tesorillo; STX: South Erregulla, Walyling. 50% POS
2U Prospective (leads)	PJ		283	283	STX: Ocean Hill South, etc. 20% POS per UIL Target, p 53
2P+2C	PJ	619	1,095	1,714	based on STX WE 2C
2P+2C+2U (prospects)	PJ	619	1,977	2,596	"
contribution to merged entity (WE 2C only)	%	50.0	50.0	100.0	"
contribution to merged entity (2P+2C)	%	36.1	63.9	100.0	"
contribution to merged entity (2P+2C+2U)	%	23.8	76.2	100.0	"
2P+2C	PJ	269	745	1,015	based on RISC WE 2C
2P+2C+2U (prospects)	PJ	304	1,662	1,965	"
contribution to merged entity (WE 2C only)	%	50.0	50.0	100.0	"
contribution to merged entity (2P+2C)	%	26.5	73.5	100.0	"
contribution to merged entity (2P+2C+2U)	%	15.5	84.5	100.0	"

Source: K1 Capital analysis of company announcements

Table 4 Warrego & Strike comparison: Enterprise Value

Description	units	Warrego WGO	Strike STX	Merged	Comment
Capital structure					
Shares on issue	million	803.2	1,706.2	2,670.1	as of 17 Jun 2020
Remaining placement shares to be issued	million	20.5	0.0	24.6	expected to settle early July
Options	million	6.7	36.1	44.2	assume all exercised (STX milestone options exp. 31 Dec 2019)
Performance rights	million	1.4	24.7	26.4	assume all vested
Converting notes	million	0.0	0.0	0.0	
Diluted shares	million	831.8	1,767.1	2,765.3	
Share of merged entity	%	30.1	63.9	100.0	
Enterprise Value (EV)					
Current share price	\$/sh	0.155	0.195	0.171	17 Jun 2020 closing price. Merged entity calculated
Market capitalization	\$m	128.9	344.6	473.5	assuming fully diluted
Cash	\$m	5.9	24.3	30.2	31 Mar 2020
Debt	\$m	0.0	0.0	0.0	31 Mar 2020
Capital raised (since last quarterly balance)	\$m	13.9	0.0	13.9	after estimated costs
Cash from options	\$m	0.8	6.6	7.5	STX: last options expire 22 Sep 2022 (\$0.35 strike)
Expected expenditure (current quarter)	\$m	-3.0	-3.0	-6.0	
EV	\$m	105.3	310.7	415.9	
Share of merged entity	%	25.3	74.7	100.0	
Tax office liability R&D rebate - FY16	\$m		6.3	6.3	STX June 2018 quarterly, p7
Tax office liability R&D rebate - FY17	\$m		3.7	3.7	STX Dec 2019 half yearly report, p19
Perth Basin work commitments (firm)	\$m		15.1	15.1	UIL Target's Statement: EP488, 489, 495, RISC p18
EV (including liabilities & commitments)	\$m	105.3	335.8	441.0	
Share of merged entity	%	23.9	76.1	100.0	
Estimated EV attributed to WE					
EV for whole company	\$m	105.3	335.8	441.0	from above, including liabilities & commitments
less SCBGP	\$m		-69.0	-69.0	per STX commissioned research report, Jan 2018
less UIL Perth Basin assets	\$m		-24.0	-24.0	UIL upper-case independent expert's valuation, p 51
less other Perth Basin assets (Palatine)	\$m	-0.3		-0.3	at estimated farm-in value
less Tesorillo	\$m	-3.9		-3.9	"
less El Romeral	\$m	-1.4		-1.4	"
= EV attributed to WE	\$m	99.7	242.8	342.5	EV attributed to WE (after deducting other projects)
Share of merged entity	%	29.1	70.9	100.0	
WGO value relative to STX	%		41%		based on WE EV estimate
market discount applied to WGO's interest	%	59%			relative to STX's WE EV estimate
Resource metric cases					
<u>based on STX's WE resource assessment</u>					
1a) EV/(2P+2C) - whole company	\$/GJ	0.17	0.31	0.26	assigns equal \$/GJ value to all discovered gas (e.g. Jaws)
1b) EV/(2P+2C+2U) - whole company	\$/GJ	0.17	0.17	0.17	assigns equal \$/GJ value to discovered and undiscovered gas
1c) EV/2C (if all EV attributed to WE)	\$/GJ	0.17	0.54	0.36	assigns whole company value to WE only
1d) EV/2C (based on estimated WE EV)	\$/GJ	0.16	0.39	0.28	assigns estimated WE value to WE only
<u>based on RISC's WE resource assessment</u>					
2a) EV/(2P+2C) - whole company	\$/GJ	0.39	0.45	0.43	assigns equal \$/GJ value to all discovered gas (e.g. Jaws)
2b) EV/(2P+2C+2U) - whole company	\$/GJ	0.35	0.20	0.22	assigns equal \$/GJ value to discovered and undiscovered gas
2c) EV/2C (if all EV attributed to WE)	\$/GJ	0.39	1.26	0.83	assigns whole company value to WE only
2d) EV/2C (based on estimated WE EV)	\$/GJ	0.37	0.91	0.64	assigns estimated WE value to WE only

Source: K1 Capital analysis. Assumes proposed Strike offer merger ratio of 1.2 WGO shares for every STX share.

Resource metric cases:

- As noted earlier the companies trade at parity of \$0.17/GJ (Resource metric case 1b above) if one effectively assigns equal value to discovered gas in other projects (such as Jaws and El Romeral) and undiscovered gas in the Perth Basin (e.g. South Erregulla, Waylring) as is assigned to discovered gas in WE (using STX's resource estimate).
- The two companies trade near parity on an EV to resource basis (~\$0.39-0.45/GJ) (Case 2a) if one assumes RISC's resource estimate for WE and includes other discovered projects; i.e. in effect assigning the same value to the SCBGP and Ocean Hill resources as WE, while excluding exploration potential. El Romeral resources have minimal impact.
- The only case above in which WGO is priced at a premium to STX (Case 2b) is if one assumes RISC's assessment of WE resources applies rather than STX's assessment but assumes STX's assessment of prospective resources in South Erregulla (1.6 tcf * 50% POS) and other Perth Basin exploration assets (Waylring, etc.), plus the NSAI assessment of prospective resources for Tesorillo.
- No adjustment to EV has been made for the value of operatorship. This is arguably of value but it is difficult to point to public domain analysis to determine an appropriate premium.

K1 Capital disclosures

Disclosure: K1 Capital Pty Ltd (K1 Capital) was commissioned by Bridge Street Capital Partners (BSCP) to prepare this research report on Warrego Energy Limited (Warrego) and will receive a fee for preparing this report. The user of this report is BSCP and persons designated by them. K1 Capital has prepared this report based on publicly available information. To the best of K1 Capital's knowledge full, accurate and true disclosure of all material information was provided by Warrego. Given the potential for a perceived conflict of interest it is K1 Capital's policy not to include a share price target or investment recommendation for commissioned research.

K1 Capital is the trading brand of K1 Capital Pty Limited, Australian Business Number (ABN) 25 614 078 714, AFS Licence number 493121. K1 Capital Pty Limited and/or its associated entities, directors and/or its employees may have a material interest in securities referred to in this report, or may provide services to, or seek to do business with, companies referred to in this report. Hence investors should be aware that K1 Capital Pty Limited or other such persons may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

The analyst discloses that when conducting on-site visits to inspect company assets the analyst may receive assistance from the company or companies involved. This assistance may include transport, accommodation, incidental expenses, and the provision of safety equipment. The analyst has not conducted a site visit to the company's operations.

This document is current at the date of the issue but may be superseded by future publications.

Disclaimer: Whilst K1 Capital Pty Limited believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law K1 Capital Pty Limited and its associated entities accept no liability for any loss or damage caused by any error in, or omission from, this document. Any projections contained in this communication are estimates only. Such projections are subject to market influences and are contingent upon matters outside the control of K1 Capital Pty Limited and therefore may not be realized in the future.

This document is not an offer to buy or sell or the solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy.

This document is intended to provide general financial product advice only and has been prepared without taking account of your objectives, financial situation or needs, and therefore, before acting on advice contained in this document, you should consider its appropriateness having regard to your objectives, financial situation and needs. If any advice in this document relates to the acquisition or possible acquisition of a financial product, you should obtain a copy of, and consider, the Product Disclosure Statement, prospectus or other disclosure material for that product before making any decision. Investments can go up and down. Past performance is not necessarily indicative of future performance.

This research is for written for "wholesale clients" within the meaning of Section 761G of the Australian Corporations Act 2001 (Cth), including "sophisticated investors", "experienced" and "professional investors" (as defined in Section 708(8), 708(10) and 708(11) of the Act).

Analyst Certification: The analyst certifies that the views expressed in this research accurately reflect the analyst's personal views about the subject company, its assets, securities or issuers; and no part of the analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

Copyright © 2020 K1 Capital Pty Limited: This publication may be reproduced in part for educational or non-profit purposes without special permission from the copyright holder, provided acknowledgment of the source is made. No use of this publication may be made for resale or for any other commercial purpose whatsoever without prior permission in writing from K1 Capital Pty Limited.

Bridge Street Capital Partners Disclosures

By downloading this report you acknowledge receipt of our Financial Services Guide, available on our web page www.bridgestreetcapital.com.au. Bridge Street Capital Partners Pty Ltd (BSCP) is licensed to provide financial services in Australia; CAR AFSL 456663; Level 14, 234 George Street, Sydney NSW 2000

Bridge Street Capital Partners Pty Ltd is providing the financial service to you.

General Advice Warning

Please note that any advice given by Bridge Street Capital Partners Pty Ltd or its authorised representatives (BSCP) is GENERAL advice, as the information or advice given does not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, PDS or like instrument.

Disclaimers

BSCP has been a Corporate Advisor to Warrego Energy. It has commissioned K1 Capital Pty Ltd to prepare this report and will pay a fee to K1 Capital. BSCP does not warrant the accuracy of any information it sources from others. BSCP provides this report as an opinion held at a point in time about an investment or sector. BSCP has no obligation to update the opinion unless you are a client of BSCP. Assessment of risk can be subjective. Historical information may not translate into future performance. Portfolios of investments need to be well diversified and the risk appropriate for the investor. BSCP does not stand behind the capital value or performance of any investment. To the fullest extent permitted by the law, BSCP disclaim any liability for any loss or damage arising from the use of, or the reliance on, any information within the report whether or not caused by any negligent act or omission of BSCP. Overseas investors acknowledge that BSCP has not solicited their business and that they have accessed this report while searching for information on Australian companies.

Additional Disclosures

BSCP is a corporate advisory firm that earns fees from providing services to clients. It has earned fees from providing services to Warrego Energy and Petrel Energy (the previous name of the Company) in the past. BSCP has been a Corporate Advisor to Warrego Energy and earned fees from that company for providing corporate advisory services. Mr Alex Sundich, a director of Bridge Street Capital Partners, was a non-executive director of Petrel Energy up to the completion of the merger with Warrego Energy in March 2019, when he stepped down from the Board. Mr Sundich is a shareholder of Warrego Energy. Executives in BSCP own securities in Warrego Energy Limited.

1.1 Appendix 1

1.1.1 US Disclaimer: This investment research is distributed in the United States by Bridge Street Capital Partners Pty Ltd and in certain instances by Enclave Capital LLC (Enclave), a U.S.-registered broker-dealer, only to major U.S. institutional investors, as defined in Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission. This investment research is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research and are not a major U.S. institutional investor, you are instructed not to read, rely on or reproduce the contents hereof, and to destroy this research or return it to Bridge Street Capital Partners Pty Ltd or to Enclave. The analyst(s) preparing this report are employees of Bridge Street Capital Partners Pty Ltd who are resident outside the United States and are not associated persons or employees of any U.S. registered broker-dealer. Therefore, the analyst(s) are not subject to Rule 2711 of the Financial Industry Regulatory Authority (FINRA) or to Regulation AC adopted by the U.S. Securities and Exchange Commission (SEC) which among other things, restrict communications with a subject company, public appearances and personal trading in securities by a research analyst. Any major U.S. institutional investor wishing to effect transactions in any securities referred to herein or options thereon should do so by contacting a representative of Enclave. Enclave is a broker-dealer registered with the SEC and a member of FINRA and the Securities Investor Protection Corporation. Its address is 19 West 44th Street, Suite 1700, New York, NY 10036 and its telephone number is 646-454-8600. Bridge Street Capital Partners Pty Ltd is not affiliated with Enclave or any other U.S. registered broker-dealer.
