

Warrego Energy Limited (ASX: WGO)

Drilling update 24th July – gas flow from Wagina target

Overview

Warrego and Strike reported this morning that the West Erregulla-2 well had encountered gas in the Wagina formation and had flared gas at surface. Although full results are not yet available, the presence of clean porous sandstone, high drilling rate of penetration through the formation and gas flaring suggests that porosity and permeability have been preserved at depth. The next steps are to increase mud weight to stop the gas flow before completing drilling the current section. Logs will be run and sidewall cores taken before the section is cased and drilling continues to the main Kingia and High Cliff targets at ~4,700m. We retain our base case valuation of \$0.17/share (range \$0.05-0.43) and upside potential on exploration success at WE of \$0.63/sh., pending conclusion of drilling and testing.

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 4,177m, with the top of the Wagina formation encountered at 4,102m, very close to prognosis. After slow drilling through the overlying Kockatea shale, the rate of penetration increased markedly to 35 m/hr after penetrating the Wagina, and clean porous sandstone was recovered at surface. Gas was at a higher pressure than expected and was flared while mud weights were increased to control gas flow.

Wagina gas could be material: Although it is too soon to evaluate the commercial significance of these early results, the Wagina target could be a material discovery, with a pre-drill mid-case resource estimate of 247 bcf. The formation, which was not gas bearing at Waitsia, will be logged and side wall cores taken for porosity and permeability determination. We don't expect drill stem testing will be undertaken given the plan to drill on to the primary targets (Kingia and High Cliff).

Results are directionally positive for reservoir quality: As noted in our previous reports, the primary risk is reservoir quality at depth. The current results from the Wagina are encouraging. Whether moveable gas is trapped in the Kingia / High Cliff will be known in the coming weeks.

Near term news flow: Strike, as operator, is following an event-driven cycle. The next report is likely to be early next week, when the current section reaches intermediate depth and logging is underway. We think TD (5,200 m) is unlikely to be reached until the second week of August, to be followed by approximately two weeks of testing.

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SHARE PRICE PERFORMANCE



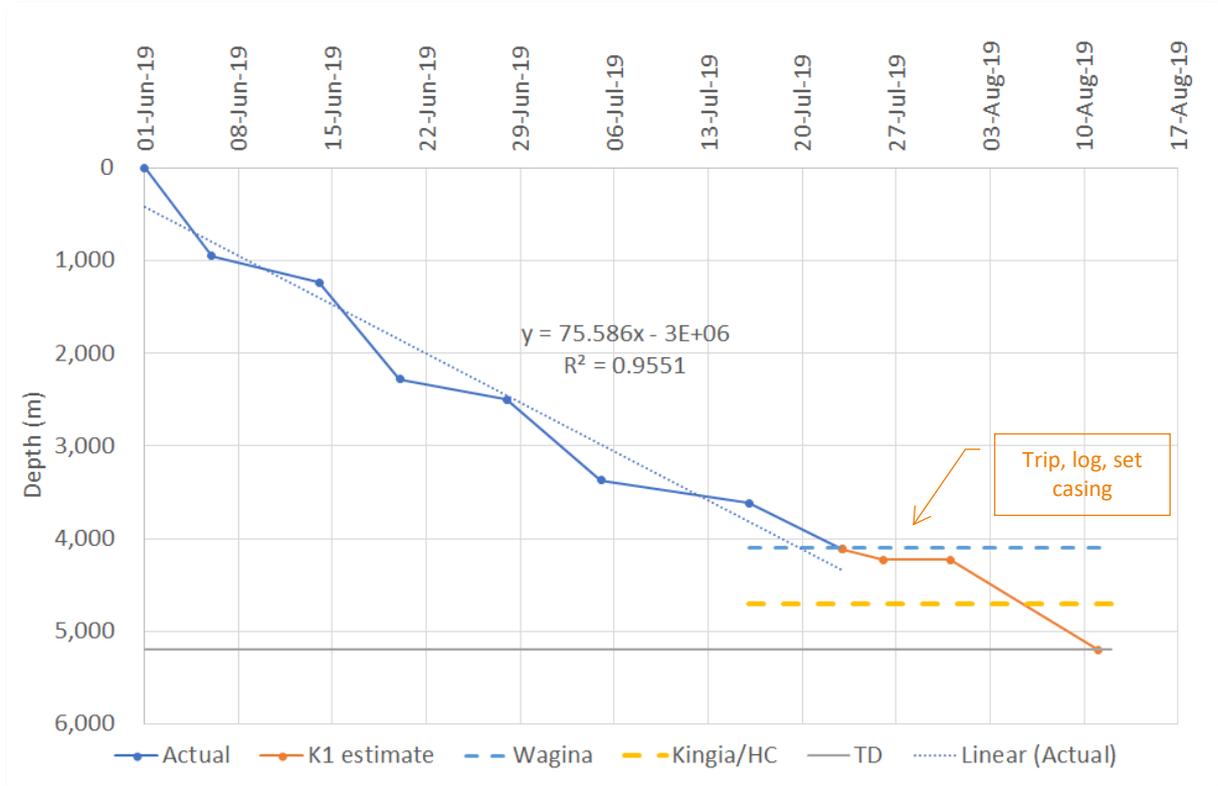
Closing price as of 23th July 2019,

CAPITALIZATION	
Last price	\$0.011
52-week range	\$0.078-0.175
Capitalization	\$73m
Cash: 31 Mar	\$4m
Debt: 31 Mar	\$5m
EV	\$72m
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	
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 24th July 2019



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

Figure 2 Gas flare at West Erregulla-2



Source: Strike Energy Limited, ASX release, 24th July 2019

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
Projects (DCF model valuation)	0.0			0	0.00	0.00		
Lochend Cardium tight oil	0.0	19.20	20	0	0.00	0.00	10.0	
Exploration / Appraisal	245.2			115	0.15	2.20		
EP 469 discovered gas	6.1	-	2	-	-	-		
West Erregulla Deep	99.3	4.80	10	67	0.09	0.91		
EP 469 Jurassic oil	9.4	7.90	8	9	0.01	0.14		
STP-EPA-0127	-	-	-	0	0.00	0.00		
Tesorillo (Spain) conv. gas	73.9	5.80	5	31	0.04	0.82		
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	-			129	0.170	2.20	Previous 0.17	
Equity Valuation @ spot prices Mkt Cap @ current share price	@ \$US63/bbl real Brent & 0.71 f (and undiluted share count)			-	-	-	0.00	
Total shareholder return (%)				61	0.093	n/a		
Number of shares (undiluted)	000,000			660.0				
Number of shares (diluted)	000,000			745.1				

0.71 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.

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1.1 Appendix 1

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