

# Warrego Energy Limited (ASX: WGO)

WE-4 total depth reached; resource size expected to increase

## Overview

The WE-4 well reached total depth at 5,069 m, with the gross thickness of the primary Kingia target exceeding that at WE-2 (155 m vs. 97 m). Net thickness was less (28 m vs. 58 m) with the reservoir thinning as expected towards the field boundary. Importantly the lowest known gas (effectively the bottom of the tank) increased by 61 m, indicating more gas in place than previously estimated. We expect flow testing to proceed later this month, followed by an independent reserve assessment in May. Our valuation has increased to \$0.33/sh (prev. \$0.31/sh) on further project derisking. Our fully derisked value remains unchanged at \$0.55/sh.

## Key points

**Faster WE-4 drilling:** Drilling progress on WE-4 was better than WE-2, reflecting the experience gained from previous drilling and the engagement of specialist drilling consultants after the problems on the WE-3 well. The Bit Basher shale, which lies between the Kingia and High Cliff targets and which was problematic on WE-2, was also significantly thinner.

**Favourable Kingia results:** The gross thickness of the Kingia exceeded that at WE-2, in part due to apparent intermingling of the Kingia and the High Cliff formations as the separating Bit Basher shale thinned considerably in this location. The net thickness of the Kingia formation was less than at WE-2, which was expected given thinning towards the field boundary. Porosity of the net pay was good (average of 11% vs. 14% at WE-2), reaching as high as 19%, which combined with the high reservoir pressure should deliver good flowrates on testing later this month and during production. Good core recovery was achieved across the Kingia and HC, which should provide much better reservoir data than the limited side-wall cores from WE-2.

**Increase in gas volume likely:** The gas water contact, which effectively sets the bottom of the gas charged reservoir, has not yet been intersected, lying below the total depth of the WE-2 and WE-4 wells (5,100 m and 5,069 m). However, the results from WE-4 have pushed the lowest known gas 61 metres lower, increasing the gas in place. This should increase the recoverable gas, with an independent reserves and resource assessment expected in May following flow testing and initial core analysis.

**Gas project FID around mid-year:** The JV expects an investment decision in 1H 2021, assuming successful testing of WE-4 provides confirmation of sufficient reserves in the central region to underpin sales contracts and project finance. We think this threshold is likely to be achieved.

**Share price catalysts:** Near term news flow will relate to flow testing (Apr) and independent reserves assessment (May) prior to confirmation of project finance (June). Results from WE-5 should be available in Jun/Jul.

**Relative valuation:** 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, trading at a discount of now 60% to Strike on market capitalization, EV and resource metrics.

**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 7<sup>th</sup> Apr 2021

CAPITALIZATION	
Last price	\$0.230
52-week range	\$0.075-0.42
Capitalization	\$222m
Cash: 31 Dec	\$33.6m
Debt: 31 Dec	\$0m
EV	\$188m
Shares	987.1m
Options/rights	18.1m
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
FY20a	0.00 MMboe
FY21e	0.00 MMboe
FY22e	0.00 MMboe
SHAREHOLDERS (%)*	
Board	35.5
Institutions	11.5
Retail/other	53.0
Total	100.0
* as of 17 Dec 2020	
LEADERSHIP	
Chairman	Greg Columbus
MD/CEO	Dennis Donald
ED/CEO Aus	David Biggs

Disclosure: This is a commissioned research report and K1 Capital will receive a fee for preparing this report.

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# 1. Financial statements

	Units	FY20a	FY21e	FY22e	FY23e	FY24e		Units	FY20a	FY21e	FY22e	FY23e	FY24e
<b>CPI, forex &amp; prices</b>							<b>P&amp;L</b>						
US inflation rate	% pa	2.20	2.20	2.20	2.20	2.20	M\$A	Sales revenue	-	-	-	4	68
Australian inflation rate	% pa	2.50	2.50	2.50	2.50	2.50	Other revenue	0	-	-	-	-	-
Inflation Factor - US	-	0.984	1.005	1.028	1.050	1.073	Production costs	-	-0	-0	-2	-15	-
\$US/\$A forex (base)	\$US/\$A	0.67	0.71	0.70	0.70	0.70	Royalties & prod purchases	-	-0	-0	-0	-6	-6
Brent	\$US/bbl	51	46	51	55	56	Admin	-4	-4	-4	-4	-4	-4
Nat Gas (Henry Hub)	\$US/mmBtu	2.1	2.6	2.9	2.8	2.9	Other	-0	-0	-	-	-	-
Nat Gas (WA domgas)	\$US/mmBtu	3.2	3.8	3.8	3.9	4.0	<b>EBITDA</b>	-4	-4	-4	-3	44	
<b>Received prices</b>							<b>EBIT</b>						
Oil	\$US/bbl	-	-	-	-	-	Deprec & Amort	-0	-1	-0	-0	-4	-4
Condensate	\$US/bbl	-	-	-	-	-	<b>EBIT</b>	-4	-5	-4	-3	39	
Gas	\$US/mmBtu	-	-	-	2.8	3.7	Net Interest Expense	-0	-1	-0	-0	-0	
LPG	\$US/bbl	-	-	-	-	-	<b>EBT</b>	-4	-6	-4	-3	39	
LNG	\$US/t	-	-	-	-	-	Tax expense	-	1	1	1	-12	
Electricity	\$US/MWh	-	-	-	-	-	Minorities / preferred dividend	-	-	-	-	-	
CO2e	\$US/t	-	-	-	-	-	<b>Normalized NPAT</b>	-4	-5	-3	-2	27	
Total	\$US/boe	-	-	-	16.1	21.7	Abnormals	-	-	-	-	-	
<b>Net production by project</b>							<b>Reported NPAT</b>						
WE - tolling (Phase 1)	mboe	-	-	-	0.18	2.21	Effective tax rate %	0.0	13.9	30.0	38.6	30.0	
WE - tolling (Phase 2)	mboe	-	-	-	-	-	<b>Cash flow</b>						
- mboe	-	-	-	-	-	-	M\$A	EBITDA	-4	-4	-4	-3	44
- mboe	-	-	-	-	-	-	Change in work cap	-	-	-	-	-	-
- mboe	-	-	-	-	-	-	Deferred tax	-	-	-	-	-	-
- mboe	-	-	-	-	-	-	Other operating items (tax, e	-0	1	0	-1	-4	
- mboe	-	-	-	-	-	-	<b>Operating cash flow</b>	-4	-3	-4	-4	40	
- mboe	-	-	-	-	-	-	PPE capex	-0	-0	-1	-2	-1	
- mboe	-	-	-	-	-	-	Exploration capex	-11	-31	-5	-3	-	
- mboe	-	-	-	-	-	-	Development capex	-	-	-0	-4	-6	
- mboe	-	-	-	-	-	-	Other investing items	-1	-	-	-	-	
Lochend Cardium tigl	mboe	0.00	0.00	0.00	0.00	0.00	<b>Investing cash flow</b>	-12	-32	-6	-8	-7	
Total	mboe	0.00	0.00	0.00	0.18	2.21	Inc/(Dec) in Equity	24	34	10	-	-	
<b>Net production by product</b>							<b>Financing Cash Flow</b>						
Oil	mmbbl	-	-	-	-	-	Inc/(Dec) in Borrowings	1	0	-	-	-	
Condensate	mmbbl	-	-	-	-	-	Dividends paid	-	-	-	-	-	
Gas	PJ	-	-	-	1.08	13.52	Other financing items	-0	0	-1	-	-	
LPG	mmbbl	-	-	-	-	-	<b>Net Inc/(Dec) in Cash</b>	8	-1	-0	-12	33	
LNG	Mt	-	-	-	-	-	<b>Free cash flow</b>	-16	-35	-10	-12	33	
Electricity	TWh	-	-	-	-	-	<b>Balance sheet</b>						
CO2e	Mt	-	-	-	-	-	M\$A	Cash & cash equivalents	15	15	14	2	35
Total	mboe	-	-	-	0.18	2.21	Other current assets (DTA)	2	42	45	47	39	
Total production	kboed	0.00	0.00	0.00	0.49	6.04	PPE, Exp & Dev	13	48	55	64	68	
Production growth	%	-	0.0	0.0	0.0	1,124.4	Intangible assets	7	7	7	7	7	
<b>Revenue</b>							<b>Other non-current assets</b>						
Oil	M\$A	0	0	0	0	0	Total Assets	38	113	122	121	150	
Condensate	M\$A	-	-	-	-	-	Short term debt	-	-	-	-	-	
Gas	M\$A	0	0	0	4	68	Other current liabilities (DTL)	2	4	4	5	6	
LPG	M\$A	-	-	-	-	-	Long term debt	-	-	-	-	-	
LNG	M\$A	-	-	-	-	-	<b>Other non-current liabilities:</b>	1	26	29	31	31	
Electricity	M\$A	-	-	-	-	-	Total Liabilities	3	31	34	36	37	
CO2e	M\$A	-	-	-	-	-	Minorities	1	1	1	1	1	
Total modelled	M\$A	0	0	0	4	68	<b>Total shareholders equity (</b>	34	81	88	85	112	
Total reported	M\$A	-	-	-	-	-	Total Funds Employed	35	82	88	86	113	
Revenue growth	%	-	0.0	0.0	0.0	0.0	Net debt	-15	-15	-14	-2	-35	
<b>Operational metrics</b>							<b>Business metrics</b>						
Revenue	\$A/boe	-	-	-	21.7	28.8	EBITDA margin %	-	-	-	-62.3	63.7	
Production & transpo	\$A/boe	-	-	-	-13.0	-6.3	EBIT margin %	-	-	-	-70.2	57.5	
Royalties & prod pur	\$A/boe	-	-	-	-1.5	-2.5	Normalized NPA %	-	-	-	-47.0	39.8	
Admin	\$A/boe	-	-	-	-20.8	-1.7	Revenue growth %	-	-	-	-	1,568.3	
EBITDA margin	\$A/boe	-	-	-	-13.5	18.4	EBITDA growth %	-	9.1	-11.0	-33.2	-1,805.1	
D&A	\$A/boe	-	-	-	-1.7	-1.8	EBIT growth %	-	22.7	-23.3	-24.9	-1,467.5	
Tax and financing	\$A/boe	-	-	-	5.0	-5.1	Normalized RO <sub>e</sub> %	-11.3	-4.5	-2.4	-1.6	18.2	
Normalized NPAT	\$A/boe	-	-	-	-10.2	11.5	Normalized RO <sub>i</sub> %	-12.5	-6.2	-3.3	-2.3	24.3	
Resource/production	years	-	-	-	5.3	0.4	Fully diluted shares (million)	804	1,047	1,047	1,047	1,047	
Product mix	% liquids	-	-	-	-	-	Wtd diluted shares (million)	708	956	1,047	1,047	1,047	
<b>Change vs. prior report</b>							<b>Leverage</b>						
USD/AUD (average)	\$US/\$A	-	-	-	-	-	Net Debt / Book %	-45	-18	-16	-3	-31	
Brent USD	\$US/bbl	-	-	-	-	-	Net Debt / (ND+ %	-81	-22	-20	-3	-45	
Brent AUD	\$A/bbl	-	-	-	-	-	Net Debt / Total %	-41	-13	-12	-2	-23	
Production	mboe	-	-	-	-	-	EBIT Interest c/x	-22.2	-5.7	-13.2	-11.0	98.0	
Revenue	\$m	-	-	-	-	-	Debt / Free Cas x	-	-	-	-	-	
Cash opex (-ve = inc	\$m	-	-	-	-	-	<b>Valuation metrics</b>						
EBITDA	\$m	-	-	-	-	-	Norm. EPS	c/sh	-0.6	-0.5	-0.3	-0.2	2.6
Normalized NPAT	\$m	-	-	-	-	-	EPS growth	%	-12	-48	-33	-1,516	
Cash (YE)	\$m	-	-	-	-	-	PER	x	-36.6	-41.6	-79.8	-119.6	8.4
Debt (YE, +ve = inc.	\$m	-	-	-	-	-	Op Cash flow	c/sh	-0.6	-0.3	-0.3	-0.3	3.8
Capex (+ve = inc.)	\$m	-	-	-	-	-	Price/Op Cash x	-36.2	-67.0	-63.7	-65.2	5.8	
							EV/EBITDA	x	-	-	-	-	-

Source: company data and K1 Capital forecasts

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

## 2. Valuation

Table 1 Warrego valuation scenarios

Case	Description	\$A m net	\$A/share
<b>Base</b>	<b>WE phased development (RISC resource assessment)</b> ~700 bcf gas (gross) two phase development, Phase 1 \$4.5/GJ real domgas pricing (~\$3.5/GJ for STX CSBP GSA), toll processing. Phase 1 at 80 TJ/d (CSBP and additional uncontracted sales) from 2023 (Alcoa contract from 2024) supported by Kingia 2C resources, 90% project risk (prev. 80%). Phase 1+2 at 115 TJ/d from 2026 supported by Kingia 3C resources, Phase 2 at 60% project risk factor (prev. 50%). Valuation reference date 30th June 2021.	<b>345</b> <b>risked</b>	<b>0.33</b> <b>risked</b>
		411 de-risked	0.39 de-risked
<b>B1</b>	<b>WE Strike 2C resource assessment</b> Base case with ~1,187 bcf Kingia/HC 2C resources. Phase 1 as for Base (90% risk), ~200 TJ/d Phase 2 from 2026 (at 60% risk), 273 bcf Wagina 2U.	468 risked	0.45 risked
		576 de-risked	0.55 de-risked

Table 2 Base case valuation summary

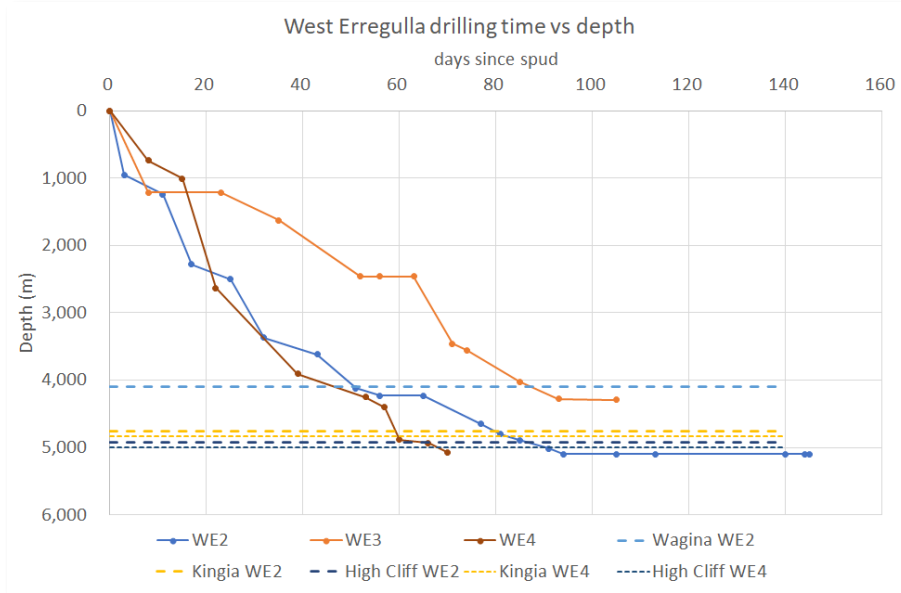
NPV @ 10.0% WACC+country factor	Net volume	NPV value	Risk factor	Risk value	Risk value	Unrisked value	Project WACC	Risk value
Valuation as of 30 Jun 2021	PJe	\$A/GJ	%	M\$A	\$A/sh	\$A/sh	%	\$A/sh
<b>Projects (DCF model valuation)</b>	<b>340.3</b>			<b>256</b>	<b>0.25</b>	<b>0.31</b>		
WE - tolling (Phase 1)	189.0	1.12	90	190	0.18	0.20	10.0	
WE - tolling (Phase 2+)	151.3	0.72	60	66	0.06	0.11	10.0	
Lochend Cardium tight oil	0.0	2.42	20	0	0.00	0.00	10.0	
<b>Exploration / Appraisal</b>	<b>671.0</b>			<b>96</b>	<b>0.09</b>	<b>0.93</b>		
EP 469 discovered gas	37.6	-	2	-	-	-		
West Erregulla - Dongara	32.9	0.86	30	9	0.01	0.03		
West Erregulla - Wagina	12.0	0.86	50	5	0.00	0.01		
West Erregulla - Kingia	41.3	0.86	50	18	0.02	0.03		
West Erregulla - High Cliff	37.6	0.86	50	16	0.02	0.03		
EP 469 Jurassic oil	57.5	2.21	8	11	0.01	0.12		
STP-EPA-0127	-	-	-	0	0.00	0.00		
Tesorillo (Spain) conv. gas	452.1	1.63	5	37	0.04	0.71		
El Romeral	-	-	-	1	0.00	0.00		
<b>Other (corporate, cash, debt, etc)</b>				<b>-7</b>	<b>-0.01</b>	<b>0.02</b>		
Corporate costs				-31	-0.03	-0.03		
Hedging & Investments				-	-	-		
Franking credits (@ 0 %)				0	0.00	0.02		
Cash				15	0.01	0.01		
Additional Equity				9	0.01	0.01		
Debt				-	-	-		
Minorities / Other				0	0.00	0.00		
<b>Equity Valuation @ base case</b>	-			<b>345</b>	<b>0.330</b>	1.26	0.31	
Equity Valuation @ spot prices	@ \$US63/bbl real Brent & 0.76 f			-	-	-	0.00	
<b>Mkt Cap @ current share price</b>	(and undiluted share count)			<b>229</b>	<b>0.230</b>			
<b>Total shareholder return (%)</b>					<b>n/a</b>			
Number of shares (undiluted)	000,000			993.8	@ valuation date			
Number of shares (diluted)	000,000			1,044.3	for fully funded development			

Notes: 0.76 USD: AUD spot and 0.70 USD: AUD long term exchange rate. West Erregulla development based on RISC resource assessment. Valuation reference date 30<sup>th</sup> June 2021 (previously 31<sup>st</sup> December 2020).

### 3. Drilling progress

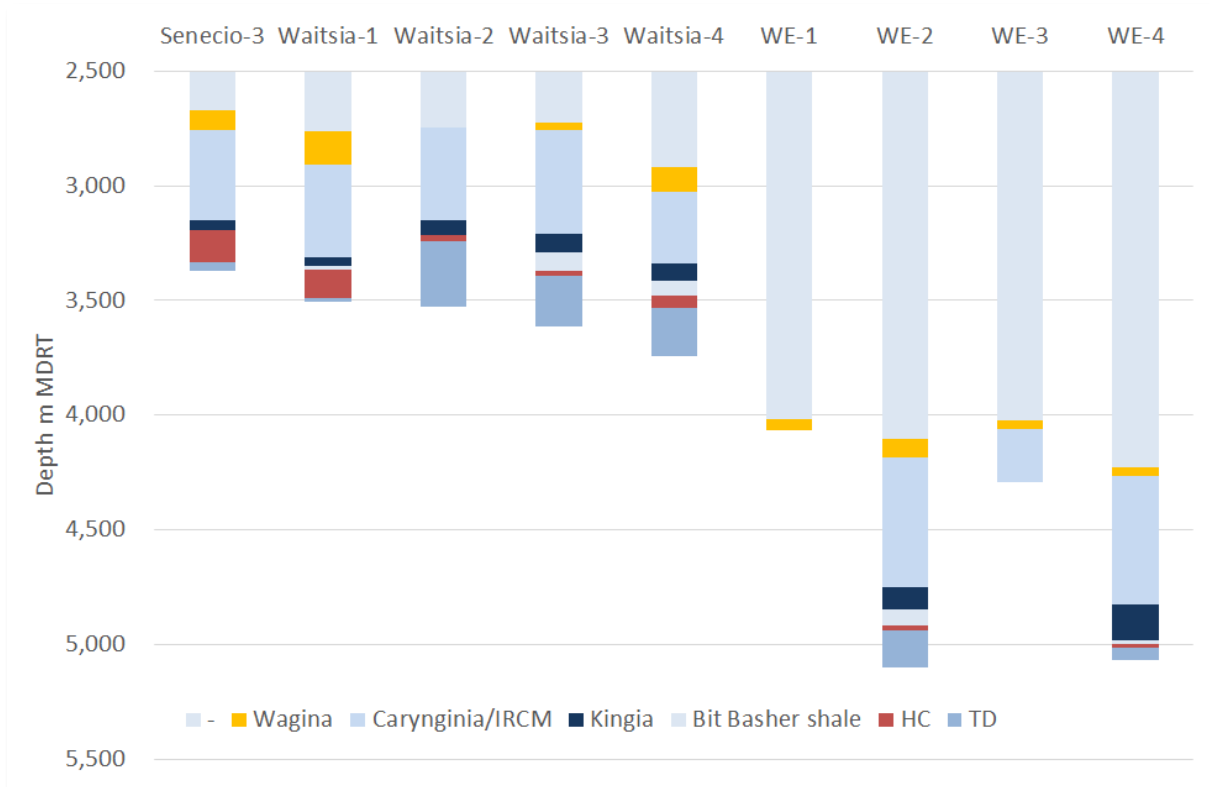
WE-4 progressed broadly in-line with WE-2 until reaching the Wagina, then achieved TD significantly more quickly, despite the additional time required to core the Kingia.

Figure 1 WE2, 3 and 4 time-depth comparison (as of 8<sup>th</sup> April 2021)



Source: K1 Capital analysis based on company announcements.

Figure 2 Waitsia & West Erregulla well formation comparison



Source: K1 Capital analysis of company announcements. WE-3 and WE-4 formation depths and thicknesses for the Wagina and High Cliff are approximate given limited data released thus far.

## 4. Well results comparison

Table 3 Comparison of Waitsia and West Erregulla wells

	Senecio-3	Waitsia-1	Waitsia-2	Waitsia-3	Waitsia-4	WE-1	WE-2	WE-3	WE-4
Drilled (TD date)	Aug-14	Jun-15	Jul-15	Jun-17	Aug-17	Jul-90	Sep-19	tbc	Apr-21
Drilling time (days)	19	25	28	32	32	65	95		70
Days rig on well (days)	33	37	37	42	44	73	113		tbc
Measured Depth (m)	3,370	3,507	3,530	3,612	3,744	4,065	5,100		5,069
Gas/water contact (m)							no		no
<u>ASX-reported results</u>	2-Sep-14	16-Jun-15	10-Nov-17	4-Jul-17	22-Aug-17	-	various		various
Wagina gross/net (m)	88/0	148/0	-	32/0	107/0	45/0	79/10		~35-40/?
Kingia gross/net (m)	39/10	} 95/18	39/~7	52/20	42/21	-	97/58		155/28
High Cliff gross/net (m)	140/		-	-	-	-	22/10		tba
<u>Well completion report</u>		3-Aug-18	3-Aug-18	3-Aug-18	3-Aug-18	Dec-90			
Kingia gross/net (m)	37/18	40/8	69/39	104/32	89/53	-			
High Cliff gross/net (m)	138/56	119/36	93/21	37/0	55/0	-			
Porosity Kingia/HC (%)	8/11	14/13	10/8	15/-	12/-		14/10		11/tba
Permeability (mD)	>10-100+	137/12.5	>10	>10	>10		102/		
<u>Flow test results</u>	9-Mar-15	28-Oct-15	10-Nov-17	23-Oct-17	22-Nov-17	Jul-90	25-Oct-19		
Formation(s) tested	Kingia/H C	Kingia/H C	Kingia	Kingia	Kingia	Wagina	Kingia		Kingia
Casing diameter (")	5 ½	5 ½	5 ½	7	7	-	5 ½		
Prod'n tubing (")	2 7/8	2 7/8			4 ½	-	3 ½		
Flow rate (mmscfd)	12.3/0.3	25.7/24.7 tubing const	38.5	49.5	89.6	0.02	69 surface const		
Choke size (/64")	36/	56/56	80	80	96	DST*2	128		
Flow time (hr)	5	~1	2.1	2.6	0.4		1		
FWHP (psig)	1,980	1530/13 30	1,315	1,929	2,395		~700		

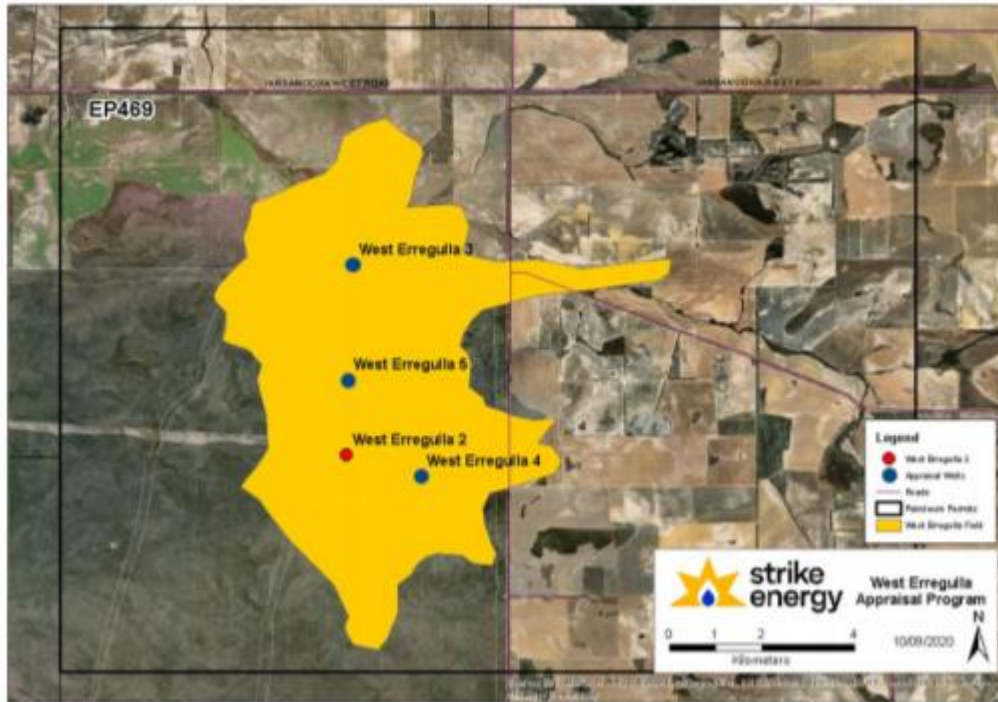
Source: K1 Capital analysis, based on company ASX announcements (AWE, Strike Energy, Warrego Energy) and well completion reports. Where ASX information differs from well completion information ASX information has been used.

- 1) Drilled date based on date total depth achieved. Drilling time from spud to TD.
- 2) No Wagina intersected in Waitsia-2. WE-1 terminated at base of Wagina. Kingia/High Cliff not intersected.
- 3) Casing diameter and production tubing diameter from ASX releases and well completion reports.
- 4) Flow rate is average rate reported for final test period. Peak rate may be higher. HC not tested in Waitsia-2,3&4.
- 5) FWHP = flowing well head pressure.
- 6) Side-wall core analysis included in well completion reports shows a significant range in porosity and permeability.
- 7) Kingia and High Cliff gross/net results and porosity results for Senecio-3 and Waitsia 1,2,3 & 4 are shown as reported to the ASX and per the Waitsia-4 Well Management Plan Interpretive Well Completion Report, 8 Aug 2018. The 8 Aug 2018 results were used by Strike Energy in its 12<sup>th</sup> September 2018 presentation to the RIU Good Oil Conference.



## 5. Well location

Figure 3 West Erregulla well locations and expected field outline

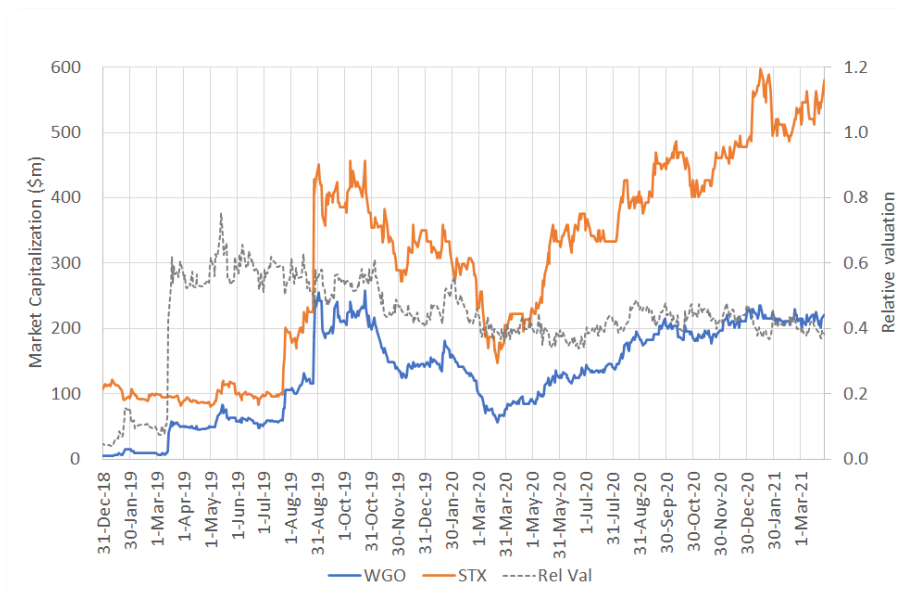


Source: Strike Energy Limited, ASX release, 8<sup>th</sup> April 2021, p 2

## 6. Relative valuation

The market values Warrego at a discount of ~60% to Strike in market capitalization terms, as shown in Figure 4 below, despite both companies having a 50% share in the same principal asset.

Figure 4 Relative market capitalization of Warrego and Strike



Source: K1 Capital analysis of ASX data. Closing price data to 7<sup>th</sup> April 2021.

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### K1 Capital disclosures

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**1.1 Appendix 1**

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