

Warrego Energy Limited (ASX: WGO)

Drilling update 6th September 2019 – 3 out of 3; gas discovery at High Cliff

Overview

Warrego's JV partner this morning declared a gas discovery in the High Cliff formation at the West Erregulla-2 well. The High Cliff, combined with the two previous discoveries in the Wagina and Kingia formations, brings the mid-case gross pre-drill resource estimate to 1,163 bcf, ~40% larger than Waitsia. High Cliff reservoir quality at WE-2 was similar to Waitsia and will be flow tested along with the Kingia formation later this month. West Erregulla represents a material discovery which should provide attractive onshore development potential. We have revised our base case valuation to \$0.63/sh (prev. \$0.46/sh) on exploration success at the High Cliff, with further upside as commercial derisking occurs.

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 targeted 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 status: The WE-2 well reached TD at 5,100 m, slightly less than the planned depth of 5,200 m. The top of the High Cliff was encountered at 4,918 m (previously 4,092m per 2nd Sep announcement). This is the deepest onshore well and the deepest onshore hydrocarbons discovery in Australia.

High Cliff gas target: Strike reported a gross section of 22 m, with net pay of 10 m and average porosity of 10.3%, with sections up to 16%. The average porosity is reasonable at this depth, but the range indicates parts of the High Cliff will be "tight". However, the reservoir quality is reported to be comparable to the High Cliff in Waitsia-1, which flowed at 25 mmscfd on test. The results were "in line with Strike's expectations and indicate a discovery with significant areal extent that can be delineated on 3D seismic."

Upside potential: Confirmation of resource volumes will require flow testing of the Kingia and High Cliff formations later this month, followed by an independent resource assessment. Initial results suggest the gas resource volume should meet the pre-drill mid-case estimate. Importantly, success at WE provides encouragement that the Kingia/HC play may extend further in the Perth Basin, providing multi-tcf potential for conventional gas, although this play will be limited by reservoir depth, which dips to the south.

Next steps: Logging will be completed to provide permeabilities, formation pressures, fluid samples and cores of the High Cliff sandstone. The well will be cased and cemented, then flow tested.

Near term news flow: Strike, as operator, is following an event-driven cycle. The next report is likely to be next week after completion of logging and casing.

MiFID II compliance statement: Bridge Street Capital Partners are Corporate Advisors to WGO and receive fees from WGO for services provided.

SHARE PRICE PERFORMANCE



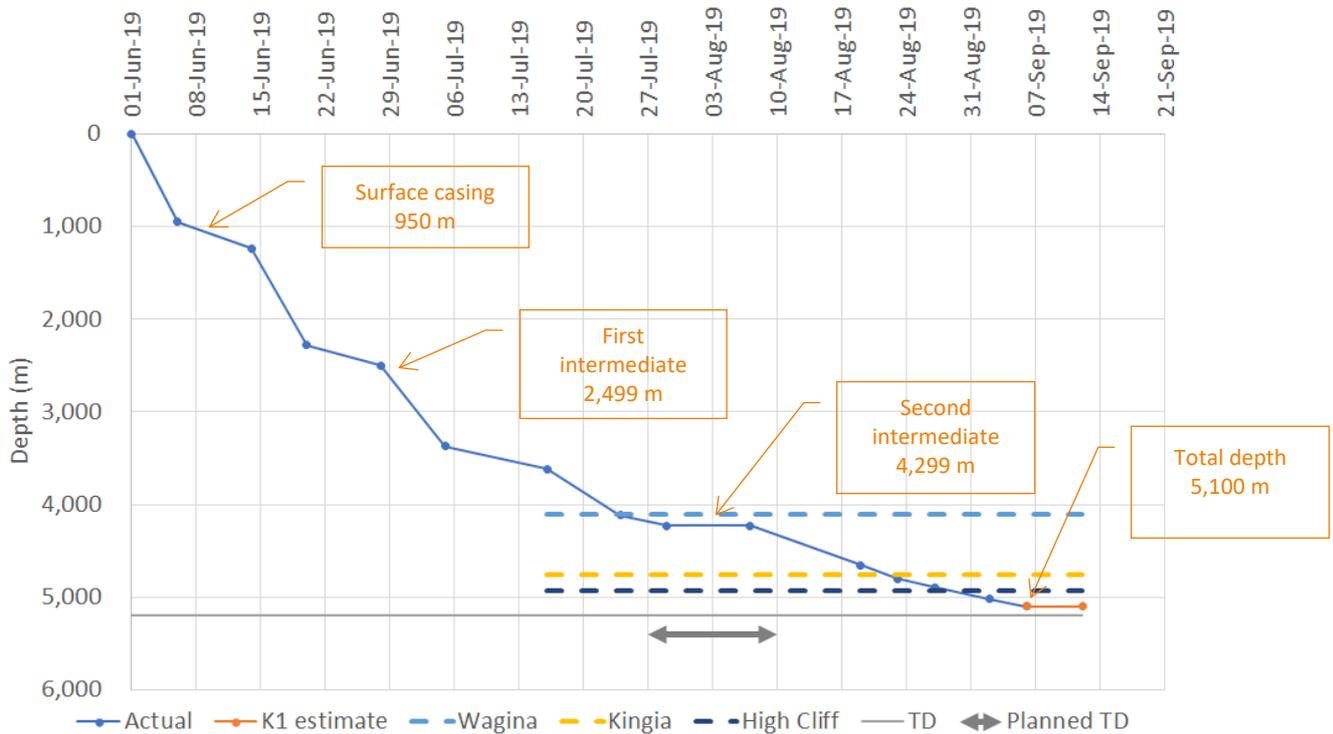
Closing price as of 5th Sep 2019

CAPITALIZATION	
Last price	\$0.385
52-week range	\$0.02-0.42
Capitalization	\$259m
Cash: 30 Jun	\$7m
Debt: 30 Jun	\$0m
EV	\$252m
Shares*	674.0m
Options/rights	7.7m
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
FY17a	0.00 MMboe
FY18e	0.00 MMboe
FY19e	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.

Author: John Young
jayoung@K1capital.net.au

Figure 1 Estimated time-depth curve for West Erregulla-2 as of 2nd September 2019



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

- 1) Actual spud date not disclosed; assumed spud date of 1st June 2010 per Strike’s 31st May 2019 ASX release.
- 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) Planned TD timing based on planned drilling campaign of 8-10 weeks per Warrego’s “West Erregulla-2 Update & Capital Raising” presentation, 31st May 2019. Planned TD 5,200 m.

Figure 2 West Erregulla prospective resource - Strike Energy assessment

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 23rd 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 3 Base case valuation summary

NPV @ 10.0% WACC+country factor Valuation as of 30 Jun 2019	Net volume mmbœ	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	188.7			447	0.59	1.84		
EP 469 discovered gas	6.1	-	2	-	-	-		
West Erregulla Deep - Wagina	21.1	4.80	60	87	0.11	0.19		
West Erregulla Deep - Kingia	38.7	4.80	60	159	0.21	0.35		
West Erregulla Deep - High Cliff	39.4	4.80	60	162	0.21	0.36		
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	0.80		
Uruguay conventional	-	3.05	4	-	-	-		
Other (corporate, cash, debt, etc)				34	0.04	0.04		
Corporate costs				-5	-0.01	-0.01		
Hedging & Investments				-	-	-		
Franking credits (@ 0 %)				-	-	-		
Cash				10	0.01	0.01		
Additional Equity				26	0.03	0.03		
Debt				-0	-0.00	-0.00		
Minorities / Other				2	0.00	0.00		
Equity Valuation @ base case	-			481	0.630	1.90	Previous 0.46	
Equity Valuation @ spot prices @ \$US61/bbl real Brent & 0.68 f				-	-	-	0.00	
Mkt Cap @ current share price (and undiluted share count)				259	0.385			
Total shareholder return (%)					n/a			
Number of shares (undiluted)	000,000			673.0				
Number of shares (diluted)	000,000			759.6				

0.67 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 674m shares (assuming issue of remaining founders' shares). Includes additional \$20-30m equity for West Erregulla appraisal (50% of seismic plus two wells at assumed \$18m each), plus G&A and Tesorillo expenditure commitments. Assumes Uruguay divested.

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. K1 Capital has not undertaken a site visit to Warrego's projects. 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 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 may have a conflict of interest that could affect the objectivity of this report.

The analyst discloses that when conducting 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.

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

Disclaimer: Whilst K1 Capital 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 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 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. 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.

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 © 2019 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 is 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 Petrel Energy in the past. BSCP is a Corporate Advisor to Warrego Energy and expects to earn 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 as of the date of this report but will be stepping down from the Board upon completion of the merger with Warrego Energy. My Sundich is a shareholder of Petrel Energy.

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
