

## *Flash Note – Transerv Energy Limited (ASX: TSV)*

### *Independent Assessment Significantly Increases Warro Gas Resources Following Successful Drilling Campaign*

### *Recoverable Contingent Gas Resource Doubled*

### *Successful Drilling of Warro 5 and 6 Wells*

**November 30, 2015**

#### **EVENTS**

- Independent assessment of the Warro gas field has significantly increased resources:
  - Contingent Resource Low estimate of 2.4 Tcf of total gas initially in place (GIIP), more than double the 2008 estimate of 1.10 Tcf
  - Contingent Recoverable Resource Low estimate of 1.3 Tcf, more than double the 2008 estimate of 0.61 Tcf
  - Total GIIP estimate of 11.6 Tcf, approximately 15% higher than the 10 Tcf upper limit from the 2012 Shanley Review
  - Total Contingent and Prospective Recoverable Low estimate gas of 2.6 Tcf worth around \$1.8 billion at current Western Australian market prices, or \$630 million net to Transerv
- Successful drilling of Warro-5 and Warro-6 wells:
  - Warro-5, drilled to a total depth (“TD”) of 4,422m intersected strong gas shows over a gross interval of 161m, including 130m of net gas pay between 4,247m and 4,408m
  - Warro-6, drilled to a TD of 4,520m intersected strong gas shows over a gross interval of 315.5m from 4,147m to 4,462.5m, which included 210m of net pay
  - Warro-6 also intersected gas bearing sands from 4,483 to the bottom of well at 4,520m

#### **BREAKAWAY COMMENTS**

The results from the two recent wells and subsequent GIIP resource upgrade at the Warro Gas Project have provided excellent results for Transerv, reaffirming the potential of the Warro Gas Project, in which Alcoa, Western Australia’s largest domestic gas user, is earning 65% through funding of activities. Warro contains the largest undeveloped onshore gas resource in Australia, is close to major gas pipelines and is located just 200km north of Perth.

The recent drilling programme included two wells, Warro-5 and Warro-6, on which initial testing could commence in December and may take up to six months to complete. Both wells were drilled away from the deep-seated faults intersected in Warro-3 and Warro-4, which were interpreted as being the source for unwanted water inflows. Warro-5 is sited 3.5km away from the previous wells, representing a significant step out, and given the results of the drilling, provides a substantial extension to the proven extent of the gas field. These well results have proven a significant volume of in-place gas which will provide the nucleus for a development programme once commercial gas flows are established.

Both recent wells intersected large thicknesses of gas bearing sands within the Yarragadee Formation, with Warro-6 deepened past the originally planned depth given the results from Warro-5, which finished in gas. Likewise, Warro-6 was still in gas when completed at the revised TD of 4,520m. The existence of gas at the bottom of the wells demonstrates the potential for deeper gas, which could further increase resources down the track.

The results of the drilling have been used to restate the GIIP resources (as shown in the table below), with this work being undertaken by RISC Advisory. Resources were originally estimated by Gaffney, Cline and Associates in 2008, prior to Alcoa’s entry into the Project and the drilling of Warro-3 and Warro-4. The Shanley Review of 2012 followed the drilling of Warro-3 and Warro-4.

## Warro Gas Project Gross Resources

Warro Gas-in-Place Tcf - Gross				Warro Field Potential Recoverable Tcf – Gross			
Unrisked	Low	Mid	High	Unrisked 4.4 Bcf per 20Ha	P90 C1	P50 C2	P10 C3
Contingent	2.4	3.2	4.3	Contingent Resources	1.3	1.5	1.8
Prospective	2.0	4.1	7.3	Prospective Resources	1.3	2.3	3.6
GIIP	4.4	7.3	11.6	Total	2.6	3.8	5.4

Source: Transerv Energy

The Shanley Review indicated that wells drilled on a 20Ha spacing could be expected to yield between 4-10 Bcf per well. Combining the Shanley data (i.e. 20ha well spacing, with each yielding 4.4Bcf) with the new GIIP estimates provided by RISC increases the C1 (lowest risk) Contingent Recoverable Resource estimate from 0.61 Tcf in the 2008 estimate to 1.3 Tcf. The RISC appraisal also added Prospective GIIP estimates, which have been combined with the Shanley data to provide an estimate of Prospective Recoverable Resources.

Using current gas prices of ~\$7/GJ, the un-risked gross value of the Potential Recoverable Resources ranges from \$910 million to \$3.78 billion, or \$320 million to \$1.32 billion net to Transerv.

### Valuation

Given the resource upgrade, we have updated our valuation for Transerv, as shown in the table below. This gives a base case valuation of \$0.19/share, with upside to \$0.38/share. The base case valuation is at a 73% premium to our initiation valuation of \$0.11/share, and at a 230% premium to the current price.

This is based on the Potential Recoverable Resources, and is risked, with a risk factor of 50% used for Contingent Resources and 10% for Prospective Resources. We have used an un-risked value of \$0.71/GJ, calculated from an NPV<sub>10</sub> valuation with parameters as used in our August 2015 Initiation Report.

### Transerv Valuation

Risked Per Share Valuation - Recoverable Resources net to Transerv			
NPV/Share	P90/C1	P50/C2	P10/C3
Contingent Resources	\$0.19	\$0.22	\$0.27
Prospective Resources	\$0.04	\$0.07	\$0.11
Total	\$0.23	\$0.29	\$0.38

Source: Breakaway Analysis

We see upside in the base case valuation – it is based on a current gas price of \$6/GJ, whereas current prices are close to \$7/GJ and some forecasts have them going significantly higher over the medium term. Using a current gas price of \$7/GJ gives a base case valuation of \$0.27/share. Conversely, a \$5/GJ price gives a base case valuation of \$0.12/share, still a significant premium to the current price.

### Summary

Results from the drilling and GIIP resource upgrade have been very positive, and confirm the quality and potential for Warro to become a significant supplier to the Western Australian domestic gas market.

We now look forward to seeing positive results from the upcoming test programme.

**Given the above we continue to rate TSV as a Speculative Buy, with a base case valuation of \$0.19/share.**

### Company Information

ASX Code:	TSV
Share Price:	A\$0.057
MCAP:	A\$48.6m
Cash and liquid assets:	A\$3.0m
Debt:	A\$0.0m
EV:	A\$45.6m

<http://www.breakawayresearch.com>

## Analyst Verification

We, Grant Craighead and Mark Gordon, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

## Disclosure

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Transerv Energy Limited and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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