Research as a Service

Armour Energy Limited

Update Report

It's time to step on the gas

Armour Energy Limited (ASX:AJQ) is a junior energy producer and explorer with assets across northern, southern and eastern Australia. Pending the successful demerger and IPO of its Northern Basins' assets via McArthur Oil & Gas ('MOG'), AJQ will benefit from a restructured balance sheet after the injection of up to $40mn (asset transaction proceeds) and stronger focus on its Surat and Cooper basins programmes on an independently funded basis. We highlight recent partnering and innovative financing agreements enabling the company to return to its production enhancement strategy, capturing upside whilst preserving capital and minimising equity dilution. The gas operating environment continues to underpin a strong economic opportunity from a supply squeeze and higher prices; and AJQ remains well positioned to benefit from planned work programmes over the next 12 months. The company is continuing to evaluate and build what will likely be a multi-year prospect portfolio with drill-ready opportunities.

Business model

Armour Energy is a junior oil and gas company holding a production base with expansion options; and an extensive exploration portfolio across three Australian states. The portfolio consists of exploration and development plays, reflecting a mix of moderate risk and early exploration stage prospects with significant, success case growth potential. The company is looking to leverage its production expansion plan in the Surat Basin in particular via specific partnering arrangements to service a more aggressive exploration strategy, without recourse to equity markets.

Lining up the partners to kick start Surat Basin growth

Armour has secured a number of partnering arrangements setting up a return to the field from mid-December. The company has entered into separate partnerships to fund work activities across the Walloon-1 and Myall Creek-2 wells and has concurrently secured a non-binding, farm-in arrangement with Gas2Grid (ASX:GGX) for work carries to the value of $12mn, covering the drilling of three new wells, frack evaluation of the Riverside-1 (or Riverside North-1) and financial underpinning of a 400km^2 3D seismic programme. These deals are consistent with the company's strategy to seek partners as a mechanism to accelerate and finance production growth opportunities**.** Armour will retain exposure to the any production upside without the capital cost and work will continue through 2022. The gas environment is primed for additional supply and incremental additions into existing infrastructure can maximise returns. The company's portfolio contains transformative oil and gas potential to be chased and exploited. Initial results should be to hand across through Q1'22. A success case should flow through to production growth quite rapidly.

Valuation – the growth opportunity is there

We retain a risked valuation of $266mn (14cps) to AJQ noting the **significant NAV premium to the reference share price (1.9cps),** which likely reflects the discounted value of the Queensland assets and resumption of gas growth activity. **Reserve metrics highlight the relative undervaluing of the company's reserves base compared to peers**. We maintain that the most attractive assets in the current market are those already in production with incremental growth opportunities. AJQ fits that template. The success case from the upcoming stimulation campaign should flow directly through the remainder of the development portfolio. We note that valuing early-phase exploration and growth assets is a subjective exercise with potentially significant change on delivery of growth targets and exploration results. Our NAV is based on risk-weighted development scenarios and typical unit NPV values across a range of industry outcomes. Where appropriate we apply discretionary probability weightings and scaling to pricing, volume and success factors, which we believe are reasonable given the commercial operating environment and available data.

Energy Exploration & Production

6th December 2021

Share Details

ASX code	AJQ
Share price (intraday)	$0.019
Market capitalisation	$32.5M
Shares on issue	1,872M
Gross Cash (at 30-Sep)	$5.3M
Free float	~69%

Share Performance (12 months)

Upside Case

- Above expectation results from Kincora gas growth programme … more gas, higher price, lower capex
- Successful divestment of Northern Basins' assets supporting stronger balance sheet and working capital for growth projects
- Persisting tightness in gas markets driving 'stronger for longer' gas prices

Downside Case

- Gas growth is not delivered to expectation
- Current operating environment persists and all projects continue to be impacted by COVID-related restrictions
- Senior Secure Amortising Notes covenants require additional equity capital or asset divestment

Board of Directors

Brad Lingo	CEO
Nick Mather	Executive Chairman
Stephen Bizzell	Non-Executive Director
Roland Sleeman	Non-Executive Director
Eytan Uliel	Non-Executive Director

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***The analyst holds shares**

To FY22 and Beyond...

With the demerger and IPO of its Northern Basins' assets into an independent entity, McArthur Oil & Gas, progressing, we look at the core business of AJQ through FY22 and beyond.

We set the current investment backdrop based on anecdotal conversations with investors and industry participants:

- In general, the investment themes remain bullish on energy, with some suggestions that the issues with energy supply may turn out to be 'chronic', particularly through the medium term;
- ... but wholesale money is increasingly likely to apply 'carbon filters' to the investment decision and (on an "oils 'aint oils" basis) all other things being equal, would likely be attracted to the stock(s) with the lowest unit carbon impact/costs.

Underpinning the bullish energy view:

- Physical and anecdotal evidence suggests a growing skills shortage in the resources space – there have been significant job losses related to pandemic issues;
- Companies are indicating increased administrative burdens, particularly in the approvals processes on a pre-development basis – progress is operationally more difficult and is taking measurably longer;
- Supply chain constraints are impacting at the operational level – it's taking longer to access long-leads etc;
- Amost all industries are being (will be) subject to commodity price inflation – all metals and considerations for the cost and availability of say, 'green steel'.

All of that means greenfields projects are going to take longer and cost more. New supply will become more problematic unless there is an operational advantage (incremental additions into existing infrastructure [Kincora and other Surat options]) or nominally cheap to produce (say, the shallower, low-risk McArthur Oil & Gas plays).

Another interesting point brought out:

<u>... explorers and current producers are increasingly being considered as providing 'better investment returns', versus companies in a development phase and that's not necessarily a new paradigm. From an investment perspective it's difficult to 'outperform' development expectations (cost and timing) and now it's simply harder to get things 'built'. The value is increasingly being seen in the discovery phase or in already operating projects where there is leverage to strong and rising product pricing.</u>

Interestingly, AJQ is well poisoned across these two parts of the value chain - exploration and production.

AJQ is long gas on a 2P basis, retaining a significant reserves base, but it does need to address the mechanisms to getting it out of the ground at a higher rate.

Exhibit 1: Reserves metrics highlight the undervalued nature of the gas portfolio

Company	Ticker	Share Price	Capitalisation A$mn	EV A$mn	2P Gas PJ	Reserves* 2P Mboe	**EV/2P A$/boe**
Armour Energy	AJQ	0.021	39	71	147	27	**2.67**
Comet Ridge	COI	0.105	90	84	106	18	**4.69**
Blue Energy	BLU	0.046	70	59	71	12	**4.89**
Central Petroleum	CTP	0.115	83	127	72	12	**10.40**

Source: Company data, ASX pricing as of 3-Dec

On a reserves metrics basis, Armour prices most favourably against a small group of peers, particularly considering the conventional nature of the gas reserves and location of its production hub, adjacent to Wallumbilla and Newstead gas storage facilities.

It should be noted that reserves metrics are not an absolute measure of the value proposition but on a comparative basis do highlight the value opportunity inherent in the AJQ portfolio. We would point out that, for instance, CTP (like AJQ) is a company with a similar level of net debt and arguably narrower margin gas, given its location, whilst COI is in a pre-FEED phase and BLU is in reserves definition.

Our financial forecasts and outlook are dependent on the company delivering a number of underpinning assumptions, particularly with respect to Surat/Cooper basin work programmes, especially production growth and the success of the MOG spin-out.

The key focus for FY22, as outlined in the recent Annual Report, is Kincora growth and high-grading of the Cooper-Eromanga exploration portfolio. We see a critical need for AJQ to better leverage its production assets and reserves base whilst pursuing new options. **Companies that work their assets deliver a strong point of investment differentiation.**

We remain confident in Surat (Kincora) growth opportunities. Notwithstanding the somewhat disappointing results of the three-well frack campaign undertaken in early 2021, the gas has not disappeared **and 2P sales gas reserves stand at ~147PJ**, with an uncontracted reserves position of >100PJ.

The less-than-expected production outcomes were reportedly related to mechanical issues with the frack gel rather than concerns with the conceptual plan - a fluid additive was identified as generating residual hydrated polymers in the frack zone, occluding the permeability and restricting fluid flow and this data has been incorporated into the plans on the next phase of works.

However, the frack campaign ticked a number of operational and geological positives; and armed with a new set of technical data, the platform has been set for notionally better outcomes. The proof will be in the flow rates.

Armour is now poised to recommence field works from mid-Dec having secured farm-in deals to partner the work programmes, offsetting the costs whilst retaining exposure to the expected upside. The deals are consistent with the company's previously announced strategy to seek partners as a mechanism to accelerate and finance production growth opportunities.

On 1-Nov, the company announced it had reached agreements for Armour to be carried 100% through the capital cost of re-stimulation activity on the Warroon-1 and frack stimulation of the Myall Creek-2 wells (~$0.7mn for W-1 and up to $2.9mn in two stages for MC-2), with the incoming party(ies) receiving *"… 50% of the incremental revenue produced above the current well production profile less costs for a period of six years"* from both wells.

AJQ will receive the remaining 50% and remains liable for the associated abandonment liabilities. We suggest the six-year tenure probably represents the nominal well life.

On 22-Nov, the company announced it had secured a non-binding, farm-in arrangement with Gas2Grid (ASX:GGX) for work carries to the value of $12mn, covering the drilling of three new wells, frack evaluation of the Riverside-1 or Riverside North-1 well, and financial underpinning of a 400km^2 3D seismic programme.

These farm-in activities are scheduled to commence from Q1'22 concurrently with the Warroon and Myall Creek programmes.

Given the timing of pending field works, positive results could be to hand early and continuously through most of CY2022.

The total value of the respective financial carries to the benefit of AJQ is budgeted to be around $15.6mn against a market capitalisation of c.$39mn.

Refer Appendix for specific details of these partnering and farm-in arrangements.

During the recent quarter, evaluation activity continued to generate high-graded, 'bypassed pay' opportunities, particularly within the Myall Creek area, noting that the initial results from earlier works, particularly in the Basal Rewan Formation play, was strongly encouraging. This zone demonstrated **higher permeability and sustained bottom hole pressure than other producing zones** – the success case should deliver more gas at higher rates on an EUR basis.

Exhibit 2: A deep portfolio of gas growth opportunities to be addressed from 2022

Potential Stimulation Candidates

Candidate	Reservoir	Opportunity
Myall Creek 5A	Bandanna - Black Alley	***Proof of Concept – Success!***
	Tinowon A	***Stimulated***
Horseshoe 4	Basal Rewan	***Proof of Concept – Success!***
Horseshoe 2	Basal Rewan	***Proof of Concept – Success!***
	Intra Wallabella	
Warroon 1	Showgrounds	*Acceleration*
	Basal Rewan	***Proof of Concept – Success!***
Riverside 1	Bandanna - Black Alley	New Bypassed Pay
	Tinowon B	*Acceleration*
	Tinowon C	
Myall Creek East 1	Rewan SS	New Bypassed Pay
	Bandanna - Black Alley	New Bypassed Pay
	Tinowon A	*Bypassed Pay*
Parknook 4	Showgrounds	*Acceleration*
	Basal Rewan	New Bypassed Pay
Parknook 2	Basal Rewan	*Acceleration*
	Bandanna - Black Alley	New Bypassed Pay
Parknook 5	Basal Rewan	*Acceleration*
Myall Creek 2	Bandanna	New Bypassed Pay
	Black Alley	New Bypassed Pay
	Tinowon C	New Bypassed Pay
Ogilvie Creek 1	Bandanna - Black Alley	New Bypassed Pay
	Tinowon A	*Bypassed Pay*
Myall Creek 3	Bandanna - Black Alley	New Bypassed Pay
Ungabilla 1	Basal Rewan	New Bypassed Pay
	Tinowon A	Bypassed Pay
Rednook 1	Showgrounds	Completed interval pending tie in
	Bandanna - Black Alley	New Bypassed Pay
Noorindoo 2	Bandanna - Black Alley	New Bypassed Pay
	Tinowon A	Bypassed Pay
Myall Creek North 1	Bandanna - Black Alley	New Bypassed Pay
Parknook 3	Showgrounds	*Acceleration*
	Basal Rewan	*Acceleration*

Source: Company data

The portfolio of incremental gas growth opportunities is extensive, with the Warroon-1 and Myall Creek-2 wells;,and Riverside prospect, to be specifically addressed over 2022.

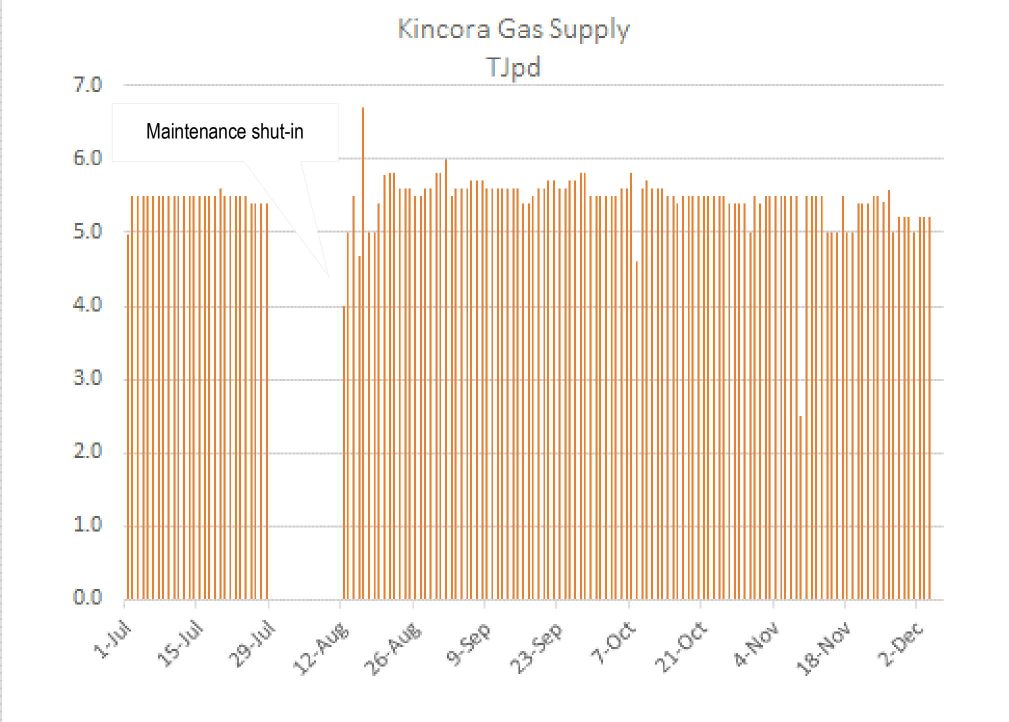
Bypassed pay can deliver especially high-margin growth.

As noted by management. The success case is supported by:

- *Commercial volumes with one-to-two-year payouts;*
- *Gas to sales with immediate effect through the existing* (underutilised) *gathering network; and*
- Success *de-risks future drilling candidates and contributes to the reserves maturation plan.*

Kincora output has remained broadly steady, continuing to deliver between 5.0-5.5TJd but highlighting the inherent upside that can be captured on improving gas throughput in a plant with ullage and operating on a predominantly fixed-cost basis.

Exhibit 3: Production is steady – it's now down to delivering more



Source: AEMO data

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Production Softer But Revenue Up On Higher Prices

AJQ delivered significant progress across a range of corporate initiatives but operational performance was softer on continuing issues at Kincora which was also impacted by a planned maintenance shut-down. Offsetting the lower sales volumes were stronger realised prices across the suite of product sales. We expect commodity prices to remain favourable given the global supply constraints currently being experienced.

Exhibit 4: September quarter highlights and comments

Production and revenue		Q4'20	Q1'21	Q2'21	Q3'21	ΔQ-o-Q
Production was down Q-o-Q ostensibly on the maintenance shutdown (refer **Exh 2**)	Production (PJe)	0.8	0.7	0.6	0.5	(17%)
	Sales (PJe)	**0.8**	**0.7**	**0.5**	**0.5**	**-**
Weaker production offset by stronger realised prices – up 11% Q-o-Q per gj	Sales revenue ($mn)	4.2	4.5	4.4	4.5	2%
	Debt ($mn)	**57.9**	**42.4**	**39.1**	**36.9**	(6%)
	Gas (TJ)		562.6	483.5	431.1	(11%)
	Ave gas rate TJd		*6.25*	*5.31*	*4.68*	
	LPG (t)		860	906	833.3	(8%)
	Oil (b)		2,129	2,873	1,457	(49%)
	Condensate (b)		9,017	7,817	7,892	1%
Continuing lift in realised commodity prices – gas up 11%, liquids up 12% and the basket up 15% on a gje basis	**Gas ($/gj)**		**$6.1**	**$7.1**	**$7.9**	**11%**
	LPG ($/t)		$578	$490	$647	32%
	Oil and condensate ($/b)		$78.8	$89.4	$100.0	12%

Development, exploration and appraisal	
Set for a return to production enhancement works	With the company securing partners to fund a return to gas enehancement activity, we can expect to see works commence in the current (Dec) quarter on both the Warroon-1 and Myall Creek-2. Capital costs will be borne by incoming parties for up to $3.6mn for 50% of net operating revenue for around six years … *this is probably the anticipated well life*. We note the Myall Creek-5A well which was successfully fracked in late 2019, is continuing to produce at strong rates. Technical work is continuing, aiming to high-grade by-passed pay opportunities, and cost-cutting initiatives are being pursued – some nine wells have been fitted with automated systems, improving utility and condensate production (note CGR increase Q-o-Q).
The exploration portfolio is growing	Pandemic restrictions have not gone to waste with the company putting '… a significant amount of focus on developing a multi-year exploration programme based on building a deep portfolio of leads and drill-ready prospects' in both the Surat and Cooper basins, utilising the exisitng 3D seismic coverage. We note the company is also reviewing the CSG potential of areas where the Walloon coals are considered to be at the right economic depth.
Corporate	
Demerger of the Northern Basins' assets via a spin-out and IPO of McArthur Oil & Gas continues to progress A Redeemable Exchangeable Note issue is proposed as a pre-IPO raise	As reported previously, a 20,000km^2, multi-phase airborne survey has been completed to underpin the high-grading of the existing leads and prospects portfolio for potentially further evaluation. The NT exploration permits have been transferred into McArthur NT Pty Ltd and a pre-IPO raise of up to $10mn via an issue of Redeemable Exchangeable Notes has commenced. The Notes can be converted to MOG shares upon IPO. Note that subsequent to end period Morgans stockbroking was appointed as lead IPO manager.
A capital raise was successfully completed	An $8.2mn placement was undertaken on 27-Sep, with $5.725mn settling by the end of the period, the balance to be to be completed and settled after AGM approvals *scheduled for 25-Nov). The issue comes with a one-for-three attaching option exerciseable at $0.05 (exp. 29-Feb-2024). Proceeds will go towards the IPO of McArthur Oil & Gas, exploration, development and maintenance capital, and general working capital including principal repayments of the company's Amortising notes.
Cash and working capital	The cash balance as at 30-Sep was $5.3mn. Exploration, evaluation and development expenditure for the period totalled ~$3.2k.
COVID	We understand the company has not been significantly impacted by the recent COVID-related lock-down and restrictions, and note that despite the country trending rapidly towards its dual vaccination targets, there remains a significant risk of futher outbreaks with a return to travel restrictions and potential for quarantine periods, in our view. As such, we highlight the continuing uncertainty with respect to the timing and conducting of field activity CY2022.

Source: Company data; *Analyst commentary*

APPENDIX – Deals Driving Activity

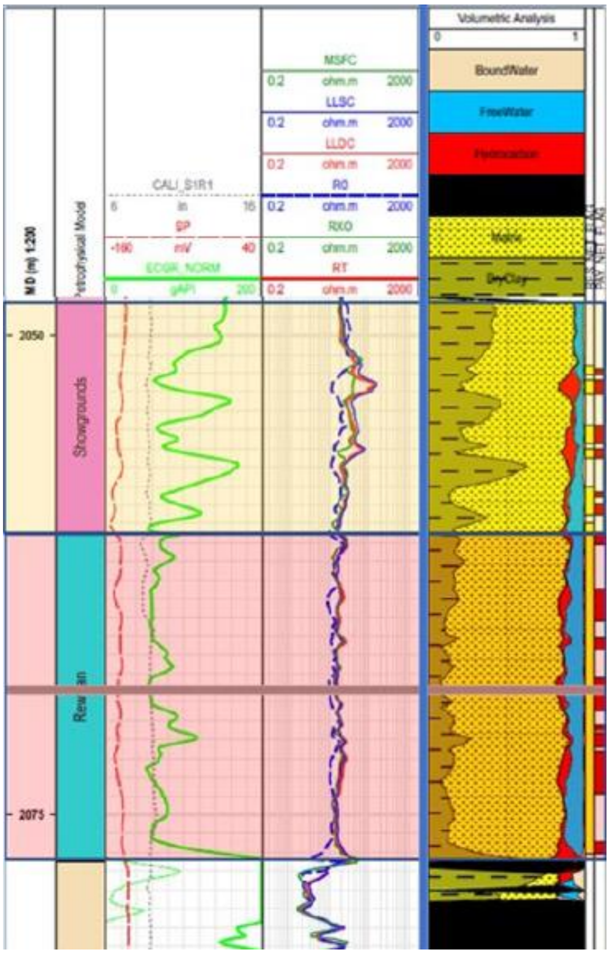
AJQ has entered into two separate partnering deals for evaluation works on the Warroon-1 and Myall Creek-2 wells. These programmes will commence within the current quarter.

Warroon-1 - a re-stimulation story

Armour has partnered with a private entity to fund 100% of the capital cost of a re-stimulation of the W-1 well at an estimated cost of $0.7mn. Once commenced the work programme including clean-up is expected to take 10-14 days. Results should be to hand before the end of the year.

The incoming party will *"... receive 50% of the incremental revenue produced above the current well production profile less costs for a period of six years, while Armour will retain the remaining income".*

Exhibit 5: Warroon-1 well log highlighting zone of interest (pink shade)



The W-1 well was part of the three-well frack campaign conducted across late-2020 to early-2021 and is subject to the current dispute between the company and the service contractor.

The well was originally drilled in 1979 and completed in the primary target, Showgrounds Sandstone. This zone produced some 3.5Bcf, ~96kb of condensate and !7kt of LPG.

A gas zone in the underlying Rewan Formation was considered too tight to be economic at that time.

The Rewan was fracked in Nov-2020 after logging confirmation of the gas saturated and porous (but tight) nature of the zone.

The log signature indicates a significant, 'clean' sand compared to the Showgrounds Sandstone immediately overlying (RHS), but the resisitivity response demonstrates the low permeability nature of the interval – minimal curve separation.

The gas potential could be significant should the re-frack be successful.

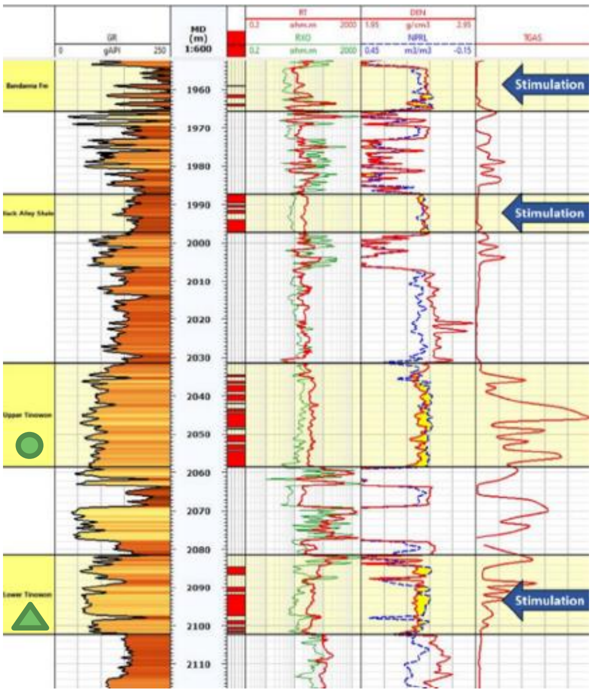
Source: Company data

Myall Creek-2 – chasing more gas upside

Armour has partnered with a Stonehorse Energy (ASX:SHE) and a private entity to jointly fund 100% of the capital cost of a two-stage frack stimulation of the MC-2 well. The frack campaign is scheduled to commence in early-2022.

The consortium will *"... jointly fund 100% of the capital which is estimated to cost $1.5mn for the perforation and fracture stimulation of the Lower Tinowon, then a further A$1.4mn for a second fracture stimulation within 12 months. The entities will receive 50% of the revenue produced from the well less costs for a period of six years, while Armour will retain the remaining income".*

Exhibit 6: Myall Creek-2 well log highlighting targeted frack zones



The MC-2 -1 well was drilled in 1999 as an apparaisal of the Tinowan Formation, primarily the upper Tinowan zone which was tested at 5.7mmcfd with condensate. This gas zone was brought online in 2001 producing >1.&Bcf on free-flow before fracking, which delivered aapproximately a six-fold increase in gas flow (3mmcfd compared to 0.5mmcfd pre-frack).

The Lower Tinowan was not tested but is considered to consist of *"… a series of good quality, fluvial channel sands with moderate to strong gas shows".*

AJQ considers the Lower Tinowan has the potential to deliver comparable results upon completion of the frack works. Results are likely to become available through Q1'22.

As part of the partnering arrangement, an additional frack stage on either the Bandanna or Black Alley formations could be undertaken within 12 months of the Lower Tinowan programme.

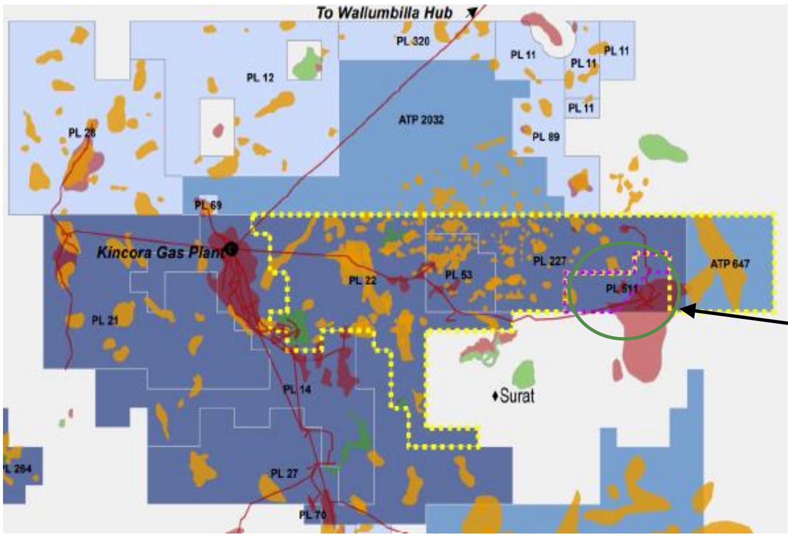
Note the logs indicate the presence of gas but restricted permeability.

Source: Company data

Riverside /Myall-Bainbilla farm-ins provide another catalyst for the Surat strategy

Armour has executed a non-binding Heads of Agreement with Gas2Grid (ASX:GGX), for GGX to farm-in to selected Surat Basin licences for 50% interests in each of the Riverside and Myall-Bainbilla tenements.

Exhibit 7: GGX farm-in areas – infrastructure, connections and discoveries are a good place to start



Across the two areas, GGX will 100% fund three wells, fracture stimulation programmes and the funding of $100km^2$ of new 3D seismic data (as part of a larger survey), which is budgeted at around $12mn.

Farm-in obigations are expected to be completed by mid-2023.

The Riverside farm-in block is located as a subset of PL 511 as indicated.

The Myall-Bainbilla farm-in area is outlined in yellow.

Source: Company data

The **Riverside farm-in** is chasing the evaluation and testing of the Tinowan C zone, which was intersected in the Riverside-1 well and identified as an overpressured, gas bearing but low permeability sand … *'an ideal candidate for fracture stimulation'*. At this location the Tinowan C is expected to hold ~3PJ gas-in-place.

The earn-in phase will see GGX fund:

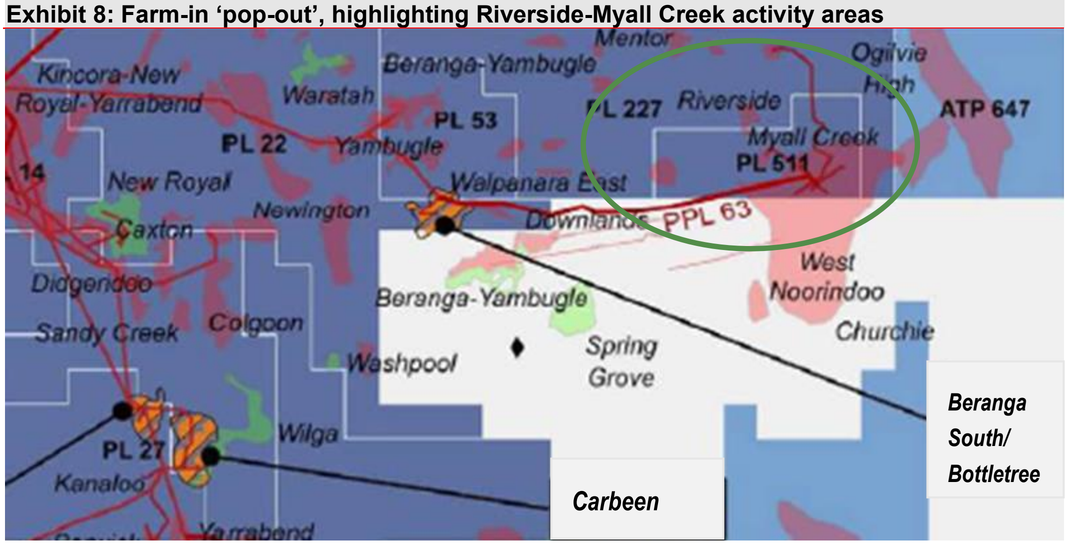
- A new well (Riverside North-1) to basement; and
- A two-stage frack evaluation in either R-1 or RN-1.

The well is to be drilled no later than 30-Jun-22 and the frack activity by no later than 30-Sep-22.

As indicated in the recent GGX announcement, the company *"… plans to commence drilling and other field operations in Q1 CY 2022 after execution of binding Farm-in Agreements"* and a success case *"… may result in two wells producing and delivering gas into the nearby existing infrastructure for sale commencing in the second half of 2022".*

GGX considers *"… the drilling of Riverside North-1 and the fracture stimulation of the formation* (as) *a relatively low-risk and low-cost opportunity to produce gas in close proximity to existing, underutilised gas pipeline and processing infrastructure".*

Exhibit 8: Farm-in 'pop-out', highlighting Riverside-Myall Creek activity areas



Source: Company data

The **Myall-Bainbilla farm-in** will be more exploration focussed with GGX highlighting the 'excellent' structural and stratigraphic potential of the entire sequence (Jurassic through Permian). Whilst noting the lack of new drilling in the farm-in blocks over the ast c.20-30 years, there is existing and extensive 3D seismic coverage across the Myall-Creek-Churchie Gas Field and immediately adjacent areas, which point to *"… areas indicative of better quality gas filled reservoirs that have not yet been drilled".*

The earn-in phase will see GGX fund:

- Reprocessing of the complete 3D data set across the farm-in areas;
- An exploration well to basement and completion as a producer in the success case;
- Acquisition and processing of 100km2 of new 3D seismic and 50% of an additional 148km2 (to be acquired concurrently); and
- A further exploration well on a 'newly' delineated target, to be completed as a producer on success.

The well is to be drilled no later than 30-Jun-22 and the frack activity by no later than 30-Sep-22.

Exhibit 9: A full timetable for farm-in work

	2021	2022				2023	
Farm-in blocks/activity	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Warroon-1	Re-frack						
Myall Creek-2		Frack evaluation				Frack evaluation	
Riverside		1 well		Frack evaluation			
Myall-Bainbilla	Seismic processing			1 well	3D seismic		1 well

Source: Company data

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Exhibit 10: Financial Summary

ARMOUR ENERGY LTD		AJQ
YEAR END		June
NAV	A$cps	$0.14
SHARE PRICE	Acps	$0.021
MARKET CAP	A$mn	39.3
ORDINARY SHARES	M	1,872
OPTIONS	M	

nm = not meaningful
na = not applicable

COMMODITY ASSUMPTIONS		FY20A	FY21E	FY22E	FY23E	FY24E
Realised liquids price	US$/b	66.26	73.18	104.48	99.32	93.20
Realised gas price	US$/mcf	5.76	6.00	6.85	6.51	6.11
Realised LPG Price	A$/t	484	534	763	725	680
Exchange Rate	A$:US$	0.6989	0.7474	0.7289	0.7273	0.7264
RATIO ANALYSIS		**FY20A**	**FY21E**	**FY22E**	**FY23E**	**FY24E**
Shares Outstanding	M	779	1,530	1,872	1,872	1,872
EPS (pre sig items)	Acps	(1.5)	(0.8)	0.1	1.3	2.0
EPS (post sig items)	Acps					
PER (pre sig items)	x	na	(2.6x)	32.5x	0.0x	1.0x
OCFPS	Acps	(10.3)	(4.6)	4.4	21.4	32.7
CFR	x	na	(0.5x)	0.5x	0.0x	0.0x
DPS	Acps					
Dividend Yield	%					
BVPS	Acps	59.0	32.4	26.0	45.1	68.1
Price/Book	x	nm	nm	nm	nm	nm
ROE	%	(23%)	(25%)	2%	30%	31%
ROA	%	(8%)	(12%)	1%	17%	20%
(Trailing) Debt/Cash	x	8.3x	24.6x	(21.0x)	1.9x	0.4x
Interest Cover	x	nm	(0.8x)	2.0x	16.6x	48.6x
Gross Profit/share	Acps	8.1	(3.0)	4.0	22.1	31.3
EBITDAX	A$M	10.4	1.1	10.0	44.0	61.4
EBITDAX Ratio	%					
EARNINGS	**A$000s**	**FY20A**	**FY21E**	**FY22E**	**FY23E**	**FY24E**
Revenue		23,208	17,502	28,188	69,827	91,745
Cost of sales		(16,931)	(22,151)	(20,638)	(28,496)	(33,122)
Gross Profit		**6,277**	**(4,649)**	**7,549**	**41,330**	**58,623**
Other revenue		2,879	601	0	0	0
Other income		123	70	44	325	0
Exploration written off		(520)	(853)	0	0	0
Finance costs		(5,276)	(6,316)	(2,776)	(2,382)	(1,168)
Impairment		0	(11,500)	0	0	0
Other expenses		(15,810)	(7,013)	(4,681)	(4,209)	(3,032)
EBIT		(4,257)	(5,346)	5,644	39,503	56,759
Profit before tax		**(9,410)**	**(11,592)**	**2,912**	**37,446**	**55,591**
Taxes		(403)	0	(424)	(10,784)	(16,227)
NPAT Reported		**(9,812)**	**(11,592)**	**2,488**	**26,662**	**39,364**
Underlying Adjustments						
NPAT Underlying						
CASHFLOW	**A$000s**	**FY20A**	**FY21E**	**FY22E**	**FY23E**	**FY24E**
Operational Cash Flow		**11,223**	**(3,094)**	**22,085**	**65,345**	**83,493**
Net Interest		(5,153)	(4,427)	(3,150)	(2,057)	(1,168)
Taxes Paid		0	0	0	0	0
Other		(24,375)	(8,395)	(16,955)	(27,352)	(23,536)
Net Operating Cashflow		**(7,999)**	**(7,062)**	**8,280**	**40,049**	**61,125**
Exploration		(529)	0	0	0	(5,000)
PP&E		0	(30)	0	0	0
Petroleum Assets		(16,686)	(11,436)	(6,750)	(10,000)	(5,000)
Net Asset Sales/other		17,842	16,239	8,500	0	0
Net Investing Cashflow		**627**	**4,773**	**1,750**	**(10,000)**	**(10,000)**
Dividends Paid						
Net Debt Drawdown		(2,250)	(18,800)	(14,193)	(10,450)	(20,550)
Equity Issues/(Buyback)		7,457	20,463	0	0	0
Other						
Net Financing Cashflow		**5,207**	**1,401**	**(14,193)**	**(10,450)**	**(20,550)**
Net Change in Cash		**(2,165)**	**(888)**	**(4,163)**	**19,599**	**30,575**
BALANCE SHEET	**A$000s**	**FY20A**	**FY21E**	**FY22E**	**FY23E**	**FY24E**
Cash & Equivalents		7,060	2,358	(1,805)	17,794	48,369
PP&E & Development		58,368	52,799	75,231	81,555	88,810
Exploration		35,209	32,013	32,013	32,013	32,013
Total Assets		**115,792**	**104,616**	**121,132**	**151,220**	**191,242**
Debt		58,009	37,906	33,381	21,718	0
Total Liabilities		**69,804**	**55,103**	**72,488**	**66,835**	**63,800**
Total Net Assets/Equity		**45,988**	**49,513**	**48,644**	**84,385**	**127,442**
Net Cash/(Debt)		(50,949)	(27,848)	(35,187)	(3,924)	48,369
Gearing dn/(dn+e)		53%	36%	42%	4%	na

PRODUCTION		FY20A	FY21E	FY22E	FY23E	FY24E
Condensate/Crude Oil	kboe	55.2	43.0	48.0	99.5	129.0
Nat Gas	PJ	2.7	2.1	2.7	8.0	11.1
LPG	kt	4.2	3.2	5.7	16.7	23.0
TOTAL	**kboe**	**527**	**418**	**544**	**1,550**	**2,132**
Product Revenue	A$mn	23.2	17.5	28.2	69.8	91.7
Cash Costs	A$mn	15.7	17.0	18.2	25.8	0.0
Ave Price Realised	A$/boe	44.02	41.83	51.81	45.06	43.03
Cash Costs	A$/boe	29.73	40.53	33.43	16.66	0.00
Cash Margin		**32%**	**3%**	**35%**	**63%**	**100%**

		Reserves			Contingent	
Net To AJQ		**1P**	**2P**	**3P**	**1C**	**2C**
Kincora Reserves						
Sales Gas	PJ	43.9	147.1	326.5		
LPG	kt	91	304	674		
Condensate	kb	436	1,462	3,245		
Oil	kb	229	1,205	2,624		
MacArthur Basin plays						
Conventional	PJ				2.5	6.2
Wombat-Triton						
Sales Gas	PJ				437	818
Otway-1						
Sales Gas	PJ					35

Prospective Resources		1U	2U	3U
MacArthur Basin plays				
Conventional	PJ	1,351	4,990	31,081
Unconventional	PJ	3,950	31,185	345,634
TOTAL	PJ	5,301	36,175	376,715

EQUITY VALUATION	Interest	Pr	A$mn	A$/share
Queensland				
Kincora	Various	50%	$64	$0.03
Exploration	Various		$10	$0.01
Newstead Gas Storage		50%	$13	$0.01
Northern Australia				
McArthur Basin	Various	1%	$187	$0.10
Cooper Basin				
Exploration	Various		$10	$0.01
Victoria				
Wombat - Trifon	PRL 2	25%	$10	$0.01
Otway-1	PEP 169	6%	$3	$0.00
Other			$3	$0.00
			$300	$0.16
Net cash/(debt)			($29)	($0.02)
Corporate costs			($5)	($0.00)
TOTAL			**$266**	**$0.14**
Shares on issue (mn)			**1,872**	

Source: RaaS Advisory, Company data; Priced close of trading (3-Dec)

Please Note: These financial forecasts reflect a gas production growth scenario, which needs to be delivered to support our earnings and value estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

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Research as a Service

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