

Indices and Prices	
All Ordinaries	5,754.70
Energy Index	9,302.30
Brent AU\$/bbl	73.4980
AUS\$/US\$	0.7565
Live Gold/AU\$	1,609.52
As at close 17 January 2017	

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Sacgasco (SGC)

DRILLING FOR CALIFORNIAN GAS

Capital Structure	
Code	SGC
Shares	171.5 m.
Options	11.0 @ Av 10 cts
Price	\$ 0.073
Market Cap	\$ 12.5 m.
Cash (est)	\$ 0.5 m.
*Post Peregrine & option exercise	

Recommendation:

Sacgasco is a speculative buy. The company is putting the pieces of its Californian gas puzzle together. Multiple prospects outside of its main two targets present a broad portfolio that is not binary in outcome. Project equity is being consolidated via the purchase of Peregrine and funding is being secured through farm-out deals. In all likelihood, drilling in May '17 will determine the way forward with significant value upside for success.

Sacgasco has made a significant initial move to fund drilling on its Dempsey exploration/evaluation well by farming out an initial 10% working interest with a 20% paying component in the Californian play to John Begg's unlisted company Bombora Energy. Bombora has a short dated, 10 day option to take another 10% working interest by the 27th of January, which would increase its paying interest to 32.5% in the well.

Dempsey	WI %	Pay %	Comment
SGC	70%	57.5%	May reduce to 40% - 8%
Bombora	20%	32.5%	If 10% option exercised
XST	10%	10%	
Additional total	Room to take	<30%WI & pay 49.5%	
	100%	100%	

Risked Valuation Matrix Target	Prospective Res		POS	NPV
	mmbbl	Pj	%	\$m
Dempsey	1	320	30%	\$ 332
Alvares	3	1680	13%	\$1,716

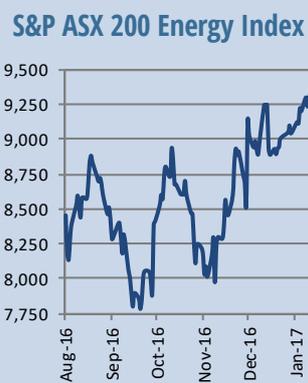
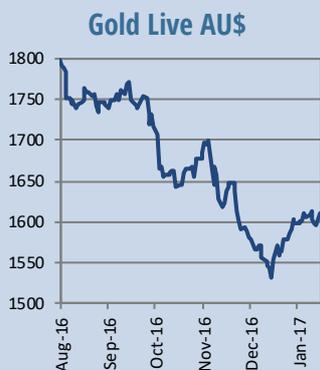
In-ground Value Assumptions

Oil \$A/bbl \$ 12 /bbl
gas A\$/GJ \$ 1.00 /GJ

Discovery Value per share	SGC	XST	Retained
% post farm-down Dempsey	40%	10%	44%
% post farm-down Alvares	27.0%	9.0%	40%
Dempsey	\$ 0.59	\$ 0.026	
Alvares	\$ 2.07	\$ 0.121	
Total Risk Adjusted Value	\$ 0.42	\$ 0.022	
Discovery Leverage per share	3644%	732%	

Source: Strachan Corporate

The company is in discussion with additional farminees. StockAnalysis believes that an additional 20% to 30% of working interest may be offered. Once Sacgasco completes the purchase of Peregrine's 30% in the project, Sacgasco could be left with 40% working interest and a residual 8% paying interest, amounting to a funding commitment of A\$416,000. StockAnalysis assumes that Sacgasco will eventually raise \$3 million via small equity issues, ahead of drilling.



Sacgasco estimates a drilling cost of A\$5.2 million at Dempsey, which would drill to 3,200 metres, targeting seven separate stacked, conventional sandstone units. The project has existing gas processing facilities on site, which accommodate small amounts of production from shallow Forbes Formation units. Gas is effectively pipeline quality, so it is simply dewatered and compressed into the transport network.

Sacgasco estimates that the top two target zones in the Forbes Formation could hold between 1 and 3 Bcf of gas each. A very low risk associated with these shallow gas targets over Dempsey and Alvares, combined with a further 8 shallow leads that have been identified, provides a downside consolation case, where the Dempsey drilling should at least repay its capital outlay over time from shallow gas if nothing is found at depth. However the main targets consist of five deeper Early Cretaceous age units, which individually have estimated targets for between 116 Bcf and up to 352 Bcf of gas, with a total target of 1 Tcf if all units are productive.



StockAnalysis risks a target of 320 Bcf of gas at Dempsey with a 30% probability of success and a much larger 1.68 Tcf target at the nearby Alvares prospect is risked with a POS of 17% with 40% retention of existing equities for the purpose of drilling.

Under these circumstances, **success at Dempsey should be worth 59 cps to SGC and 2.6 cps to XST.** In the less likely case that the Dempsey target meets a 1 Tcf Prospective gas target set by Sacgasco, discovery would ultimately be worth \$1.72 per share to SGC and 7.6 cps to XST. However, moving such a large amount of gas into the Proven and Probable categories would involve drilling tens of wells at a cost of at least US\$100 million, which would be a nice problem to have!

Valuation	SGC	
	\$ m.	\$ / shr
Net cash	0.5	\$0.002
Corporate	(3.6)	(\$0.016)
Options	1.1	\$0.005
New Equity	3.0	\$0.013
Subtotal	1.0	\$0.004
Risked Sacramento	93	\$0.418
Total risked value	94	\$0.422

Source: Strachan Corporate

StockAnalysis assesses a risked target value for SGC of 42 cps, but the market may see a binary outcome, where drilling success means riches and drilling disappointment means poverty!

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