

3rd March 2022

Lakes Blue Energy

Next...back to Victoria

Lakes Blue Energy NL (ASX:LKO) is a junior energy explorer, listed on the ASX since December 1985 with assets across southern and eastern Australia (and PNG). As part of its return-to-trading conditions the company has recently completed the drilling of the Wellesley-2 prospect, which was unfortunately plugged and abandoned as an unsuccessful well. The focus of activity will move to the company's Victorian opportunities, most critically the drilling of the Wombat Gas Project (Wombat-5) and Otway-1 conventional wells. The success cases have the capacity to materially change the structure and value base of the company on short development lead times and low capital costs. Wombat-5, in particular, could be considered as relatively low-risk...this is a proof-of-concept well, finding gas will not be an issue. We continue to see a role for gas in the energy transition and highlight the supportive gas price environment. Crystallising the inherent value is dependent on successful drilling outcomes and the company's capacity to continue to secure financing, but certainly the opportunity set looks attractive with a number of potential event drivers through 2022.

Business model

Lakes Blue Energy is a junior oil and gas explorer with diversified tenement holdings across three Australian states and PNG. The company also holds a pre-development opportunity in the Nangwarry Industrial CO₂ Project (50%), which should advance commercial definition across the remainder of 2022. Due to the early phase nature of the portfolio, investors should consider this a high-risk investment.

Chasing southern gas

Disappointingly, the Wellesley-2 well has been plugged and abandoned as an unsuccessful well. There are technical positives in that logging data has confirmed the well was off-structure and chasing channel plays can be challenging with a small margin for error. Acquiring 3D data is the next logical step. On a positive basis, the focus of works has shifted back to the Victorian gas opportunities where work programmes have been approved and can be considered as conditions (defined activity) for the particular tenements. The company is now planning for the drilling of the Wombat-5 and Otway-1 wells (subject to specific approvals) from mid-2022. The Wombat Gas Project remains a high priority for Lakes. The project contains a large gas Contingent Resource (719Bcf at 2C) **which represents a transformational development opportunity**. Lakes is drilling the Wombat-5 conventional lateral well to specifically test whether commercial gas flows can be achieved without requiring fracking.

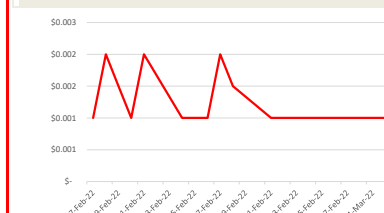
Valuation of \$183m (0.4cps) at the mid-point

We adjust our valuation to take account of the Wellesley-2 result and come up with a base-case (mid-point) valuation of \$183m (0.4cps) for LKO, with an upside case to \$309m (0.7cps). Against a reference share price (0.1cps) this would suggest the market is appropriately weighting the asset base for the current operational and corporate risks. We note the success case, particularly for the Wombat Gas Project, would result in a material unwinding of risk weightings and reset of the economic base cases, delivering potentially transformative upside, likely well in excess of our valuation range...such is the nature and attraction of exploration plays.

Share Details

ASX code	LKO
Share price (2-Mar)	\$0.001
Market capitalisation	\$42M
Shares on issue	42,382M
Net debt (est.)	\$3.8M
Free float	~47.3%

Share Price Performance (since relisting)



Upside Case

- A return to drilling at the Wombat Gas Project could deliver a transformational production opportunity, perhaps deliverable within 24 months
- Success at Otway-1...any gas discoveries can be considered as material in an environment where supply is squeezed and gas prices are rising
- Success opens alternate financing options and restricts dilution

Downside Case

- Wombat-5 fails to deliver a definitive commercial outcome...an economic gas-flow rate is required
- Current operating environment continues to be impacted by COVID-related restrictions and supply chain issues
- Continuing financing reliance through equity issues or high-cost Convertible Notes – dilutionary effects rendering capitalisation somewhat meaningless

Catalysts

- Drilling results through H2 '22, particularly at Wombat where success could underpin a transition to production

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FINANCIAL SERVICES GUIDE

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