



Research Report

Lakes Blue Energy (ASX:LKO) – SPEC BUY

Continuing to await flow rates at Wombat

LKO Price: \$0.76 | LKO Valuation: \$3.15 | Implied Return: 314% | 26 March, 2026

Background

Lakes Blue (LKO) is Australia's oldest operating petroleum exploration company. LKO was established in 1946, listed on the ASX in April 1955, but delisted in 1959. LKO was relisted in 1985 and, since then, has spent in excess of \$100m exploring within both the onshore Gippsland and Otway Basins, easily surpassing the onshore Victorian exploration efforts of any other entity.

Key Points

- LKO is entirely focused on progressing the Wombat field where the company has been undergoing flow testing and appraisal. We are still awaiting sustained flow rates (TJ/day), stabilised pressure rates, and formal commerciality declaration.
- Production testing at Wombat-5 has taken longer than initially planned. Gas has been confirmed to flow from all target zones; however optimal flow rates have not yet been observed. As the well was drilled with weighted mud for hole stability a key delay has been fluid seeping from the wellbore into the formation.
- The well is currently suspended for extended pressure analysis. This is to gather longer-term reservoir data to better understand permeability and deliverability.
- LKO aims to run a perforation program at the horizontal reservoir section which is a standard technique to improve gas flow. LKO will need additional approval from state government. It is expected the approval process will take 2-3 months.
- 3D seismic is planned at Wombat to better delineate the gas zone and determine location of a deeper oil reservoir which was encountered when Wombat-3 was drilled in 2004. The encountered oil has the same characteristics as offshore oil indicating a common source rock.
- Beyond Wombat LKO are looking to develop Nangwarry-1. Independent assessment of the well has established a best case 25.9 billion cubic feet (Bcf) gross recoverable carbon dioxide (CO₂) enough to produce 150-200 tonnes per day for approximately 20-year production.
- A BFS is currently being undertaken which will focus on food and beverage grade CO₂ liquefaction plant. This study will focus on a plant design of 100-200 t/day and market and offtake assessment. CO₂ demand is undersupplied in Australia following the closure of the Caroline-1 CO₂ field which operated for 50 years.
- This year LKO are also aiming to drill PEP 167 & 175, potentially Q4 2026, but progression will be aligned with outcomes at Wombat.
- **Gas shortage** on the east coast and especially Victoria means Wombat can ease supply deficit worries

Valuation

We value LKO at \$3.15, down from \$3.58, as we don't expect production before 2029 at Wombat-5 should the flow rate testing prove commercial. LKO are looking to have 8 wells in production at \$7 million per well. Gas plant and pipeline estimated at a cost of \$113m and abandonment costs of \$35m. State royalty and trust holder royalty to run at 10% and 12%, respectively. We estimate a 50/50 debt/equity ratio to fund the project and use a discount rate of 10%. To be conservative we decided to end gas production in 2043, however production could flow beyond that date with Trifon-Gangell. The upcoming perforation program increases the risk level, although we have not adjusted based on risk yet and await proper flow test mid-year.

Company Data

Recommendation: Spec Buy

ASX Code: LKO

Shares on Issue: 73.325m

Market capitalization: \$55.7m

Enterprise Value: \$51.7m

Board Structure

Roland Sleeman: Non-Exec Chairman

Richard Ash: Executive Director & CEO

Nicholas Mather: Non-Exec Director

Boyd White: Non-Exec Director

Major Shareholders

Tenstar Trading Limited: 7.179%

Newpeak Metals: 6.07%

DRG Global Limited: 5.169%

Total Top 20: 47.4%

Chart



Source: ASX

Valuation

Financial Year	Wombat																		
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042		
Flow Rate (PJ/annum)				17.45	15.83	16.59	15.66	16.15	16.15	15.80	16.25	16.03	15.79	16.14	14.73	13.48	12.52		
Gas lost fuel & flare 5%				16.6	15.0	15.8	14.9	15.3	15.3	15.0	15.4	15.2	15.0	15.3	14.0	12.8	11.9		
Flow Rate (TJ/day)				45.4	41.2	43.2	40.8	42.0	42.0	41.1	42.3	41.7	41.1	42.0	38.3	35.1	32.6		
Flow Rate (GJ/day)				45418	41201	43179	40759	42034	42034	41123	42295	41722	41097	42008	38338	35085	32586		
Revenue (\$/day)				668096	615136	654169	626872	656155	665822	660851	689824	690498	690434	716240	663254	616091	580688		
Revenue (\$m/annum)				243.9	224.5	238.8	228.8	239.5	243.0	241.2	251.8	252.0	252.0	261.4	242.1	224.9	212.0		
Opex \$m (well cost)				13	12	13	12	12	12	12	12	12	12	11	10	10	10		
Opex \$m (admin etc)				3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5		
Trustholder Royalty				29	27	29	27	29	29	29	30	30	30	31	29	27	25		
State Royalty				24.4	22.5	23.9	22.9	23.9	24.3	24.1	25.2	25.2	25.2	26.1	24.2	22.5	21.2		
EBITDA, \$m				173	160	170	163	171	174	173	181	181	181	188	174	162	152		
Finance Cost				5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6		
D&A, \$m				10	10	10	10	10	10	10	10	10	10	10	10	10	10		
EBIT, \$m				158	144	154	147	155	158	157	165	165	165	173	159	146	137		
Interest				5.5	5.1	4.7	4.3	3.9	3.5	3.2	2.8	2.4	2.0	1.6	1.2	0.4	0.0		
Tax				17.3	43.2	46.3	44.2	46.6	47.4	47.1	49.5	49.6	49.6	51.8	47.6	43.8	41.0		
NPAT, \$m				134.9	95.6	103.4	98.9	104.8	107.2	106.7	112.7	113.3	113.8	119.2	109.8	101.8	95.7		
Initial wells				-56.0															
Additional wells, \$m					7.0	21.0	7.0	21.0			7.0	7.0							
Capex & sustaining capex, \$m					-113.0														
Abandonment Cost					-35.9														
Cashflow, \$m				-204.85	137.94	84.65	106.42	87.87	114.84	117.16	109.75	115.67	123.32	123.83	129.18	119.77	111.83	105.68	
NPV (\$M)																		\$498	
IRR																			55%
Shares on issue (diluted, millions)																			73.325
\$/share (pre-capex)																			\$6.79
Cash raised toward capex (\$AUm)																			84.5
Shares post capex (millions)																			157.83
Value/Share																			\$3.15

We have valued LKO on a likely production scenario at Wombat. Once commercialised, LKO is looking to produce from the top layer of the field from 2029 which has an estimated 255 BCF of gas and at its peak is expected to produce up to 20 PJ/annum from 18 wells. At \$16/GJ, we expect peakcash flows of above \$100m per annum supplying 10% of all Victorian gas demand. LKO has committed to sell gas into the local market and thus we have not taken into account pipelines tariffs, however LKO can enter into swaps to free up northern gas for export rather than send it into southern states.

Well costs are estimated at \$7 million each and LKO are targeting 8 wells at the start and after 10 additional wells. We expected the gas plant and pipeline to cost around \$113m. We estimate an abandonment cost of \$35m, trustholder royalties to run at 12% and state royalty at 10%. We have modelled a debt/equity ratio of 50/50 to fund the project and have not taken into account potential partnering. Our post-tax, unrisks valuation with Wombat producing at a discount rate of 10% is **\$3.15/share and pre-capex gives a valuation of \$6.79/share**. We are comfortable with the petrophysical modelling at Wombat with the main risk remaining being reservoir quality/quantity of gas. Production testing at Wombat-5 is ongoing and will test reservoir quality and determine if flow rate can match the proposed production scenario. We have used a variable gas price ranging from \$14.7/GJ in 2029 to \$17.8/GJ in 2043.

Planned perforation and extended pressure analysis has increased the risk at Wombat-5 regarding impact on natural permeability. However, it is too early to draw any conclusion and we should see news regarding the flow rate mid-year.

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