StockAnalysis

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Fitzroy River Corporation – Ungani Value

Fitzroy River Corp is recommended as a buy for exposure to a long term steam of royalty income from Canning Basin interests....

Indices and Prices

All Ordinaries	5,146.20
Energy Index	13,184.60
Brent AU$/bbl	119.95
AUS$/US$	0.9157

As at Close December 10th, 2013

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Fitzroy River Corporation – Ungani Value

Code	FZR	: ASX
Shares	90.8	m.
Price	$ 0.385	
Market Cap	$ 35	m.
Net Cash (est)	$ 12	m.

Recommendation: ***Fitzroy River Corp is recommended as a buy for exposure to a long term stream of royalty income from Canning Basin interests.***

During 2014, Canning Basin operator Buru Energy (ASX: BRU) plans to ramp up production from its Ungani oilfield towards 3,000 barrels per day. Buru is planning to drill the Unagani-3 vertical well during January/February of 2014, provided that it is able to get the contracted drilling equipment on-site later this month. Oil production from the existing two wells at Ungani is scheduled to recommence this month, with oil being exported via the port of Wyndham.

Later in 2014 or early in 2015, at least one horizontal well is planned for Ungani. A successfully completed horizontal well is likely to be able to produce about 2,000 BOPD, taking total production capacity towards 5,000 BOPD.

Testing of Ungani-North is now planned for after April 2014. Success at this test would lead to a tie-in to production from Ungani and then the likely drilling of at least one additional Ungani North well. This work holds potential to lift production towards 6,000 BOPD.

In addition, Buru is planning at least one and possibly more exploration wells along the Ungani province, guided by recent 3D seismic data that clearly shows high priority prospects for oil. StockAnalysis sees clear potential to lift oil production from Ungani to over 12,000 BOPD over time, provided that exploration is as successful as its first two attempts in the region. Logistics indicate that oil will eventually be exported via pipelines to the Port of Broome, with this outcome developed post 2014.

StockAnalysis looks at what these scenarios might mean for Fitzroy's cash flow and valuation, taking two levels of well-head oil value. At a wellhead value of $60/bbl, Fitzroy's royalty would be $1.20 per barrel of production and at a wellhead value of $80/bbl Fitzroy would be paid $1.60 per barrel of production.

Currently, Fitzroy is seeking clarity on the basis for its royalty through the court, arguing that according to its agreement, royalty should be calculated on gross oil value, at which level royalty payment would be closer to $2.40 per barrel.

(Continued on page 2)

All Ordinaries

S&P ASX 200 Energy Index

Brent Crude Oil $A/barrel

A$/US$

		Dividend		Yield		NPV		
Royalty value	$/bbl	$1.20	$1.60	$1.20	$1.60	mmbbls		
Ungani production		cps		%		16	45	
3,000	BOPD	$0.006	$0.010	1.6%	2.5%	$11.7	$33.0	$m.
6,000	BOPD	$0.016	$0.023	4.3%	6.0%	$0.129	$0.364	$/shr
12,000	BOPD	$0.037	$0.050	9.5%	13.0%			

Source: Strachan Corporate

StockAnalysis calculates the net income that Fitzroy might expect at various rates of production from Ungani and surrounding projects. Appropriate administrative costs are deducted and taxes imputed to calculate net, after tax profits that could be distributed to shareholders. At a production rate of 3,000 BOPD, shareholder distribution would be 0.6 cents per share at a royalty rate of $1.20/bbl and 1 cps at $1.60/bbl, producing an annual yield of 1.6% and 2.5% respectively. When oil production rises to 6,000 BOPD, distribution would be 1.6 cents per share at the lowest possible wellhead value and 2.3 cps at the more reasonable wellhead value, delivering yields of 4.3% and 6% respectively at the current share price.

Expanded production of 12K BOPD would deliver royalty payment that support a share price of 83 cents per share if they traded with an annual yield of 6%.

Based on StockAnalysis' calculation of the net present value per barrel or Mcfe of Fitzroy's royalty stream, a total Reserve of 16 million barrels, matching the current estimates for Ungani and Ungani North, would have an NPV of $11.7 million or 12.9 cps while success in expanding reserves towards 45 mmbbls, would lift Ungani's NPV to $33 million or 36 cps to Fitzroy.

Fitzroy Value Estimates	$m	$/Shr	
Ungani + North	12	$0.13	
Cash	12	$0.13	
Sub-total	24		$0.26
Risked Ungani Provence	22	$0.24	
Sub-total	45		$0.50
Yulleroo	16	$0.18	
Risked Yulleroo Provence	26	$0.28	
Sub-total	87		$0.96
Risked Valhalla-Paradice	46	$0.50	
Grand Total	133		$1.46

Source: Strachan Corporate

Adding net cash of $12 million to an estimated value of $12 million for the royalty stream from Ungani and Ungani North produces an underlying value for Fitzroy of 26 cps. Then, risking 180 mmbbls of prospective upside for the Ungani province at 16% probability of success (POS) delivers a risked value of $22 million for royalty payments arising, lifting the company's total estimated risked value to 50 cents per share.

Allowing for Yulleroo to deliver 350 Bcf of gas plus 13 mmbbls of oil and allocating 70% (POS) produces an estimated value of $16 million for royalties from those assets, while risking a further 5 Tcf of gas and 180 mmbbls of liquids from Yulleroo with an 8% POS delivers a risked value for royalties of $26 million or 28 cps to Fitzroy, taking total risked value to $87 million or 96 cps.

To get a feel for valuation upside, consider that success along the Ungani province, where 200 mmbbls has been spoken about, would be worth over $1.60 per share to Fitzroy and the upside at Valhalla and Yulleroo is measured in many dollars per share to Fitzroy.

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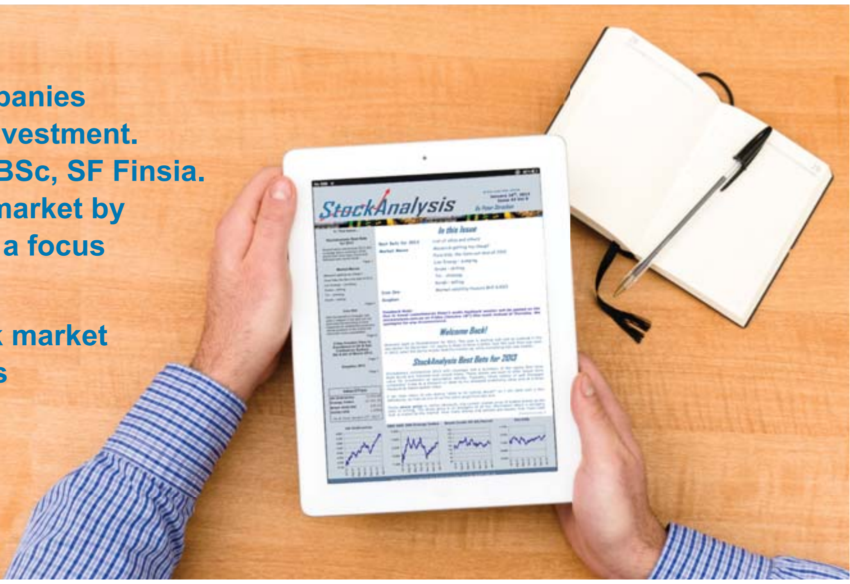

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