

23 November 2017

ASX CODE: MPE
Speculative Buy
Capital Structure

Sector	Energy
Share Price	A\$0.0015
Fully Paid Ordinary Shares (m)	9617.2
Listed Options (ex 0.3c exp 31/10/20) (m)	3016.6
Options (ex 0.25c, exp 2/08/19) (m)	4200.0
Options (ex 0.2c, exp 31/10/20) (m)	275.0
Market Capitalisation (undil) (m)	A\$14.4
Share Price Year High-Low	A\$0.002-0.001
Approximate Cash (m)	A\$0.8

Directors

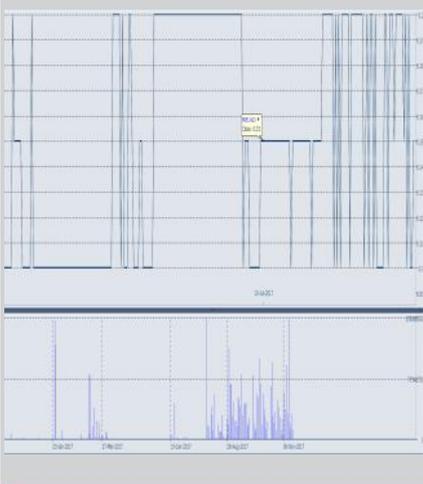
Nathan Featherby	Executive Chairman
David Scoggin	Non-Executive Director
Saxon Ball	Non-Executive Director
Nicholas Halliday	Non-Executive Director

Major Shareholders

Avatar Energy	4.8%
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Analyst

Rob Brierley	+61 8 6380 9200
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Share Price Performance


Magnum Gas & Power Ltd

It's make or break time for Tulainyo appraisal well

Farming in to a potentially very large gas play in California

- In June 2017, Magnum Gas & Power ("Magnum" or "MPE") agreed to invest US\$3.5m for a 60% shareholding in Gas Fields LLC, with the remaining interest owned by ASX-listed Pancontinental Oil & Gas NL. Gas Fields LLC is farming in to the Tulainyo conventional gas project in the Sacramento Basin in California, USA by the funding of 3 exploration/appraisal wells, the first of which entitles the Group to a 10% interest in the southern block.

Tulainyo appraisal well now spudded

- The Tulainyo 2-7 gas appraisal well in the Sacramento Gas Basin in California has recently spudded. This well is being drilled nearby to the original Tulainyo-1 discovery and sidetrack wells that were drilled into a 50km² anticline in 2014 and 2015.
- The Tulainyo-1 discovery wells intersected a series of stacked sandstone reservoirs at depths of less than 1.7km, but challenges with overpressure in the formation meant that flow testing of the gas was not possible and the wells were subsequently plugged and abandoned. The appraisal well currently being drilled should reach its target depth of 1,700m in less than a month, with only the upper sands being intersected initially.
- The key risk for MPE and its partners is completion of the well, as the overpressure in the Tulainyo structure (which is somewhat caused by its close proximity to the San Andreas fault) can cause blowouts. These risks are being managed by paying close attention to the engineering aspects of the well, which are likely to include the use of heavy drilling muds and frequent casing points.

Strategic share placement tops up the coffers

- On 10 November 2017, MPE conducted a Share Placement issuing 228,571,429 new shares priced at 0.175 cents per share, with one free option attaching to each share, exercisable at 0.3 cents and expiring on 31 October 2020. Net of costs, this will increase the Company's cash reserves by approximately \$380,000.

California Gas: a low risk jurisdiction, heavily reliant on interstate exports that is well serviced by pipeline infrastructure

- Approximately 90% of California's gas requirements are currently being met by imports from other sources within the US. As such, local producers command a price premium in the range of 10-15% over the Henry Hub Natural Gas Spot Price. This enhances the commerciality of the Tulainyo Project.
- Tulainyo is located less than 10km from a major gas trunkline and in close proximity to gas receipt points. California's intra-state gas pipeline network is currently under-utilised due to field depletion in the region.

Action and Recommendation

- RM Research** is maintaining a Speculative Buy on MPE. Whilst cognisant of the risk in completing the Tulainyo 2-7 appraisal well, we think that the chances of a successful outcome on the well are currently under-rated based on MPE's current share price. Our analysis suggests that modest commercial flow rates to surface from a successfully completed Tulainyo appraisal well could push the share price to levels around 0.8 cent, a significant premium to the current share price.

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RM Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Buy	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
Speculative Buy	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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