

Falcon Oil & Gas Ltd

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Falcon Oil & Gas to ride out market uncertainty thanks to new farm-out

What Falcon Oil & Gas does:

Beetaloo - Falcon Oil & Gas Ltd's (LON:FOG) (CVE:FO) (OTCMKTS:FOLG) Australia now holds a 22.5% interest in 4.6mln gross acres in exploration permits EP76, EP98 and EP117 covering the most prospective core area of the Beetaloo Sub-basin.

The Beetaloo Sub-basin is located in the Northern Territory, 600 kilometres south of Darwin and close to infrastructure including a highway, a pipeline and a railway.

Some 6.6Tcf has been booked as a contingent gas resource before results from the upcoming drilling programme - which will see up to four wells drilled.

Thanks to a new farm-out deal Falcon is now carried for A\$268mln of the costs, up from A\$113mln.

In early April, against a backdrop of coronavirus triggered upheaval, Falcon stuck an extra farm-out with Origin.

Not only does the deal secure Falcon's position in Beetaloo, without dilution or equity risk, it also essentially defines expanded investment from Origin - which is particularly significant given that most in the sector are aggressively cutting back on capex and growth plans.

Karoo Basin - Karoo covers an area of 7.5mln acres. Falcon submitted its application to the Petroleum Agency of South Africa in 2010.

Mako Trough - Falcon has been active in the Makó Trough since 2004 when it acquired the Makó and Tisza exploration licences

How it's doing:

In an interim statement for the three months ended March 31, 2020, Falcon highlighted a strong financial position, debt-free and US\$11.5mln of cash in the bank.

The company noted that it has continued to focus on strict cost management and efficient operation of its portfolio. G&A expenses were US\$400,000 which represents a 12% reduction quarter-on-quarter.

Drilling

In February, drilling of the Kyalla 117 N2-1H ST2 horizontal well at Beetaloo was completed successfully.

The well was drilled to a total of 3,809 metres, including a 1,579m lateral in the Lower Kyalla formation.

Price: 11.9

Market Cap: £116.84 m

1 Year Share Price Graph



October 2019 April 2020 October 2020

Share Information

Code: FOG

Listing: AIM

52 week High Low
13.75 4.9

Sector: Oil & Gas

Website: falconoilandgas.com

Company Synopsis:

Falcon Oil & Gas Ltd. ("Falcon" or "Company") is an international oil and gas company engaged in the acquisition, exploration and development of unconventional oil and gas assets. The Company's principal interests are located in two major underexplored basins in Australia and South Africa; with further interests in Hungary, covering approximately 12.3 million gross acres.

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The joint venture continues its in-depth shale evaluation programme, the company said, with technical data available from conventional cores, sidewall cores, DFITs and extensive wireline logging.

Falcon and partner Origin Energy are working to expand the known footprint of the shale play whilst also exploring and de-risking the engineering and commercial understanding of the project - ahead of what could be a very large-scale development.

Huge volumes of gas could potentially be unlocked for export into energy-hungry Asian markets.

In March, Falcon announced that its latest Beetaloo shale well would be suspended prior to the start of a fracking programme as operator Origin responded to the challenges of the coronavirus.

In doing so, Origin Energy adhered to advice from the Northern Territory and Federal Government on health and safety and social distancing.

It is expected to be a temporary, three month pause to operations. The programme is expected to resume in the second half of 2020. The drilling of the next well, the Velkerri Flank well, will likely then follow in the first half of 2021.

Karoo, Mako

In South Africa, Falcon expects the exploration right over the acreage in the Karoo Basin will be awarded soon.

This licence is about 173 million acres and contains thick, organic-rich shales such as the Permian Whitehill formation.

Falcon is continuing to review its operations in Hungary, which includes the Makó Trough.

What the boss says: Philip O'Quigley, chief executive

Falcon chief executive Philip O'Quigley highlighted that the deal confirms that Origin remains committed to the project.

"This farm down together with Falcon's unaudited cash reserves of US\$11.5 million at 31 March 2020 leaves us well-positioned to participate in the future upside potential of the Beetaloo.

"We look forward to updating the market as soon as operations recommence in the Beetaloo."

What analysts say

Stockbroker Cenkos, which rates Falcon as a 'buy' with a 40p target price, said in a note in late April that the company was a unique proposition on AIM.

"We believe Falcon is now fully funded through one of the greatest periods of uncertainty in the oil and gas industry, eliminating all equity and dilution risk for shareholders", the broker said, adding that if the company was able to prove the commercially of any of its plays they will be "ideally situated for both export and domestic utilisation".

"At a time when many oil and gas companies fight for their very survival, we believe Falcon has secured an excellent deal for shareholders", Cenkos said.

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