



3D Oil Limited (TDO)

A long wait but the race is set to begin.

Our View

As an exploration play 3D Oil has some impressive real estate with a deep portfolio of opportunities of scale, leveraging the emerging oil province in the Bedout Basin (WA-527-P) and east coast gas theme (T/49P). Recent asset transactions highlight the interest on a corporate level on these plays, whilst providing a tangible valuation benchmark. Whilst TDO represents a very early stage exposure, there are direct and indirect re-rating events that could begin to crystallise the intrinsic upside in the portfolio. Financing will be a short-medium term issue and ultimately the company will require partners but there is a potentially transformational opportunity for management to deliver.

Key Points

Seismic programmes are set to progress in the Tasmania and Bedout basins, providing the first tangible field activities through the company's portfolio, after what have been increasingly frustrating delays. As a first step, 3D survey can better define and re-rate the exploration opportunities as a pre-cursor to drilling.

The Conoco deal* is better than the market is ascribing. Securing ConocoPhillips as a partner for T/15P is a significant positive for TDO on a number of levels, not the least being the \$65mn of cash and carry (as we estimate it) that cover seismic and drilling (subject to Conoco exercising its option).

Conoco is a big major, bring expertise and balance sheet to the gas plays, but more importantly it supports the geological model that the permit has gas potential of scale and our view of the east coast gas investment thematic. The ACCC continues to point to the need for continuing (and increasing) exploration but this needs to deliver gas finds of size...and that's what Conoco is chasing.

The Bedout plays continue to evolve around TDO – there will need to be a catch up here. Santos is tying up the Bedout Basin and indicating the Dorado oil discovery is about to enter a FEED phase. Tangible, commercial production is close and TDO represents the last independent exposure and early entry stage opportunity in the play(s).

TDO will need a partner and we understand negotiations are in train, but it is a slow process and a partner may or may not be secured ahead of the shooting of the Sauropod 3D seismic survey in early 2021...but we suggest, this is activity TDO can likely fund if required.

The share price is not reflecting look through transaction values, particularly the Conoco deal metrics. We can calculate comparative values for both the Tasmanian and Bedout basins plays well in excess of the current capitalisation of the company (A\$19mn), which we suggest doesn't reflect the intrinsic value of the portfolio on a first principles basis, particularly with the referred prospectivity and transactional metrics of recent deals and acquisitions.

Note our assessment is highly subjective and based on Prospective Resources estimates and metrics all subject to potential significant change upon seismic and drilling results (directly and indirectly).

*ConocoPhillips farm-in deal is subject to final documentation

2 March 2020

Recommendation: Spec BUY

Summary (AUD)

Market Capitalisation	\$19M
Share price	\$0.072
52 week low (2-Mar-20)	\$0.072
52 week high (30-May-19)	\$0.13

Share price graph (AUD)



Source: Yahoo Finance

Key Financials (AUD 000s)

Quarter end	2Q19A	3Q19A	4Q19A
Receipts (inc interest)	10	2	20
Payments for exploration	(338)	(264)	(179)
Payments for production			
Payments for admin	(306)	(221)	(302)
Other			(4)
Net Operating Cashflow	(634)	(488)	(465)
Payments for fixed assets/other	500	(100)	993
Net Investing Cashflow	500	(100)	993
Net share issue			
Change in borrowings			
Net interest/other		(20)	(19)
Net Financing Cashflow	0	(20)	(19)
Net change in cash	(134)	(608)	509
Cash at end quarter	934	326	835
Expected spend next quarter			570

Investment summary

Gas markets in Eastern Australia continue to point to a strong investment thematic based on supply and capital constraints, we think likely to hold gas prices high through the medium to long term. The supply tightness is demonstrated by the progress of LNG import project proposals at key points along the east coast, which will underpin the shift in gas pricing mechanisms...import parity is the likely long-term outcome.

The recently released ACCC Gas Statement of Opportunities continues to call for more exploration to avert longer-term gas shortages. Exploration is costly and requires significant financing capability.

Within this context 3D Oil offers an opportunity of transformative scale in its offshore Victorian assets as evidenced by the recently announced farm-in by ConocoPhillips and imminent commencement of first stage work programmes across both its T/49P and VIC/P74 permits.

TDO is not simply a gas play, offering exposure and leverage into the emerging oil (and gas) province in the Bedout Basin (WA-527-P) which it holds at 100% with seismic work expected to commence early in 2021. We highlight and note that the Dorado JV is about to enter the FEED process for a 75-100kbpd oil development that could be sanctioned and in construction before mid-2021. Dorado provides the exploration analogue for the region with look-a-like plays extending into the company's acreage.

At high equity ownership across its portfolio, TDO has leverage to success and importantly financing options via partnering. We would also note that the portfolio has scale attractive enough to attract major domestic and international companies.

The company's assets are early stage exploration assets and must be viewed within that context. Ascribed values are highly subjective but the 3D seismic programmes scheduled over the next 12 months or so, should provide significant validation of the exploration models and re-rating points ahead of any subsequent drilling activity.

Despite delays and slow progress, 3D oil is an inexpensive exposure to the continuously evolving gas play in eastern Australia, emerging oil (and gas) province in the Northern Carnarvon Basin; and these opportunities on a corporate and investment basis are difficult to come by in the sector at the moment.

It has taken a while but TDO is now on the start line

There's stirrings and some movement in the TDO portfolio. After frustratingly slow progress we can see significant opportunity and activity opening up.

Conoco has stolen a march and implies there's still a big east coast gas game to be played. After divesting its WA production and exploration assets, Conoco Phillips were perhaps hinting at an exit from the country and we suggest at a minimum were indicating that the risk/reward equation for the company in WA was unfavourable. By subsequently farming into T/49P, Conoco has reinforced our view on the strong investment potential of the east coast gas theme and the opportunity of scale that this asset provides. It has been somewhat perplexing as to why this asset has been looked over by industry and the market for quite so long, when the upside potential appears so transformative, but Conoco has we think taken a step ahead of the pack and importantly for TDO, brings expertise and a balance sheet to the exploration and evaluation campaign.

Bedout Basin plays have been somewhat forgotten but developments are now in train which highlights the opportunity TDO brings. Through 2019 Santos (STO.ASX) and its JV partners conducted significant drilling and evaluation programmes, with Santos acquiring more acreage, up to and adjoining TDO's holdings. We note in its 2020 Outlook presentation, STO hope to move to a formal FEED process on a Dorado development in 2Q20 – we suggest that could result in a project sanction by perhaps mid-2021 for a 75-100kbpd oil development. This would be a game changer, positively impacting the economics of exploration future discoveries (lowering the development reserves threshold and capex).

TDO is in the farm-out process and similarly to T/49P we think the WA-527-P permit offers a significant opportunity for existing tenement holders to build a regional footprint across an emerging oil and gas province or perhaps a last chance for new entrants ahead of developments and activity raising the barriers to entry.

Field activity over the next 12 months or so, is restricted to the acquisition of 3D seismic in both areas and whilst that doesn't come with the excitement of drilling, positive results can significantly de-risk and high grade the exploration portfolios in these areas, particularly if they reveal coincident direct hydrocarbon indicators.

The current capitalisation of the company (A\$19mn) certainly doesn't reflect the intrinsic value of the portfolio on a first principles basis, particularly with the referred prospectivity and transactional metrics of recent deals and acquisitions.

We stress that this is a highly subjective assessment and subject to supporting data from seismic and drilling, both directly and indirectly. Upcoming 3D seismic results in particular could deliver some potentially significant re-rating events in the short to medium term.

Looking at the assets

The portfolio is now set for activity with 3D seismic programmes set to be shot for T/49P and WA-527-P. Critically this can support a significant re-rating of the assets and set up the drilling phase.

T/49P (TDO 25%*) – Farminee secured and now the shooting begins

*Subject to completion of farm-out

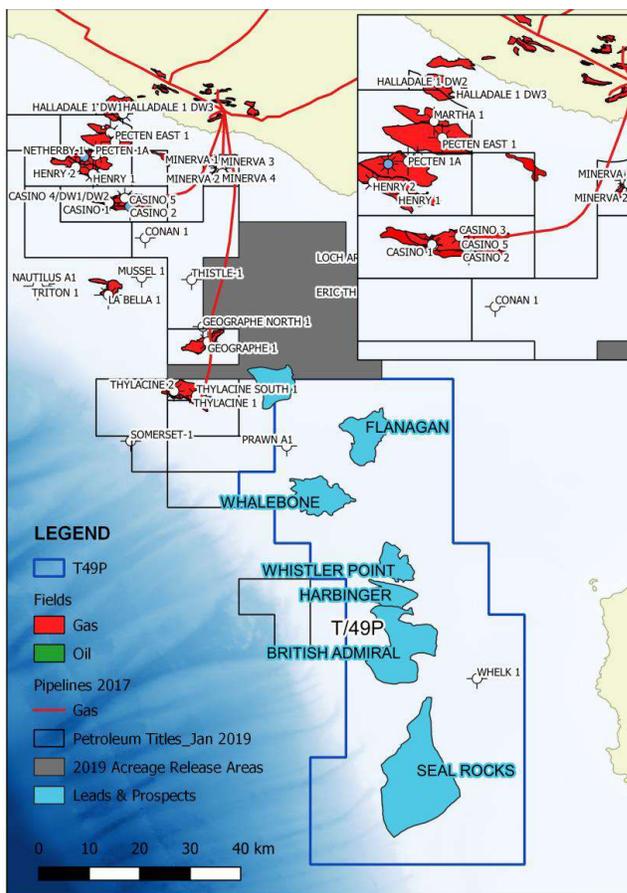
Securing ConocoPhillips as a partner is a very good outcome for TDO with Conoco able to provide technical depth, resources and financial capacity to the JV and progress work programmes.

Conoco will acquire a 75% interest in T/49P and operatorship of T/49P under the following terms:

- 3D Oil to receive cash payment of A\$5mn as reimbursement of previous costs;
- Conoco will fully fund the acquisition of a (minimum) 1,580km², 3D seismic survey (Dorrigo Survey) in the permit, which we estimate to be around \$15mn;
- Conoco can then elect to drill an exploration well and fully fund the first US\$30mn of associated costs

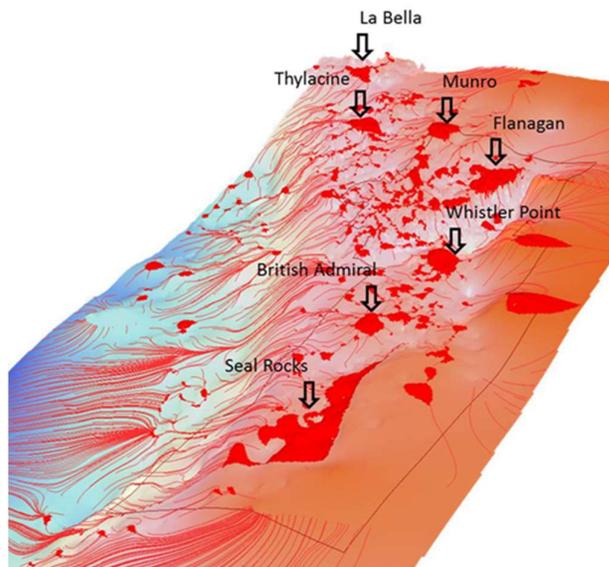
Using the reference exchange rate (AUDUSD 0.67) we estimate the value of the farm-in to be around A\$65mn (for 75%)

Fig 1: Location Map showing TDO permit T/49P with a drill ready target in an infrastructure network



The T/49P acreage is located in the offshore Otway Basin (Western Victoria), adjacent at the northern margin to the Beach Energy (BPT.ASX) production facilities at Thylacine-Geographe.

The asset should be considered as ‘frontier’ exploration but importantly is located in relatively moderate waters ~100m deep and drilling costs should be reasonably cheap.



The 3D migration modelling looks interesting, showing migration of significant gas from the north, towards and through the proven gas-condensate fields at Thylacine and La Bella with positive implications for the Leads and Prospects portfolio in T/49P.

Source: Company data.

Seismic acquisition could begin in late 3Q20 with processing and interpretation possibly extending through 1Q21.

T/49P is large, extending over some 4,960km² and contains one prospect and six other leads, estimated to contain all interpreted to contain Prospective Resources ranging from 3.0-28.8Tcf (recoverable, unrisks). The Dorrigo 3D survey as planned covers

~30% of the permit. On any scale it is a major programme which will provide significant definition across the leads and prospects portfolio

We estimate dry hole costs would be in the order of A\$40mn and covered by the second phase of the farm-out deal. Low drilling costs also point to a low economic threshold.

Fig 2: T/49P Prospective Resources estimates. It's the scale that's attractive to Conoco

Prospect	Low	Best	High	
Recoverable gas (Tcf)				
Flanagan	0.53	1.34	2.74	Prospect (drillable target)
Munro (part T/49P)	0.04	0.19	0.57	Lead
Whistler Point	0.82	2.04	8.95	Whistler Point, British Admiral and Seal Rocks leads are to be evaluated by the Dorriggo survey
<i>British Admiral</i>	<i>0.37</i>	<i>1.03</i>	<i>4.45</i>	
<i>Seal Rocks</i>	<i>0.95</i>	<i>4.64</i>	<i>10.64</i>	
<i>Harbinger</i>	<i>0.33</i>	<i>0.79</i>	<i>1.43</i>	
TOTAL	3.04	10.03	28.77	

Source: Company data.

We calculate a look-through value for TDO on the Conoco farm-in deal, which we estimate to be A\$65mn of net cash and carry to the company. Conoco will receive 75% of the permit interest upon completion of the transaction, whilst TDO retain 25%. Scaling up the transaction values T/49P (100%) at ~A\$86mn. Stripping back the sunk costs (~A\$5mn) derives a transaction look through directly against the asset of ~A\$80mn (allowing for the US\$ component conversion).

We have used the Beach Energy – O.G Energy Holdings deal as an additional comparative transaction benchmark to back solve the implied 'risk weighting' the farm-in value represents against the resource potential as a measure of reasonableness.

The BPT transaction effectively transferred ~182PJ of 2P liquids rich gas reserves for \$344mn. On a unit of reserves basis this calculates out at ~\$1.90/gje which we suggest is useful as a starting point and apply it to the Flanagan Prospect as the only drill-ready target in the permit. Discounting the unit transaction price by 75% seems reasonable to reflect developed-producing reserves (BPT deal) versus undiscovered resource potential.

On these assumptions we estimate that the transaction metric asset value (A\$80mn) suggests only a 12% Probability of Success for Flanagan at the 'Best Estimate (P₅₀)' level of Prospective Resource.

WA-527-P (TDO 100%*) – Bedout, bedout, be-dout

The WA-527-P acreage is located some 100km to the north-east of the Dorado-1 oil discovery. Dorado is, in its own right, a game changer for the Bedout Sub-basin, particularly with that discovery heading towards FEED and we suggest a project sanction by before mid-2021.

We shouldn't under-estimate the look-through potential that Dorado has for WA-527-P, particularly with the TDO permit being situated in the same geological setting, on the notional basin margin and channel system that characterises the Dorado and Roc discoveries. We suggest the company's acreage effectively 'captures' this play to the north-east.

The TDO team has identified a potential erosional channel system within the south-west of the acreage offering an analogous trapping mechanism to that which sets up the Dorado discovery

We highlight where the company's acreage sits in relation to the STO portfolio, whose strategy appears to be to dominate the emerging plays on a regional basis, basin-wide. TDO is the only small, independent and leveraged exploration exposure to the opportunity set in the basin.

The next logical step for TDO ahead of any drilling commitments is to secure a farm-in partner and we understand discussions with multiple major E&P companies are progressing although the timing of any resolution is somewhat open ended at this stage.

Acquisition of the Sauropod 3D seismic survey is scheduled for 1Q21 with the key aims being to better define the channel system and associated traps; upgrade the Whaleback, Jaubert and Salamander features (to drillable status?), and evaluate the largest of the potential Paleozoic carbonate features.

TDO currently carries a 'Best Estimate (P₅₀)' level of Prospective Resource of up to 349Mb, which is subject to refinement post the result of the Sauropod survey.

Fig 3: Location Map showing TDO permit WA-527-P is on trend

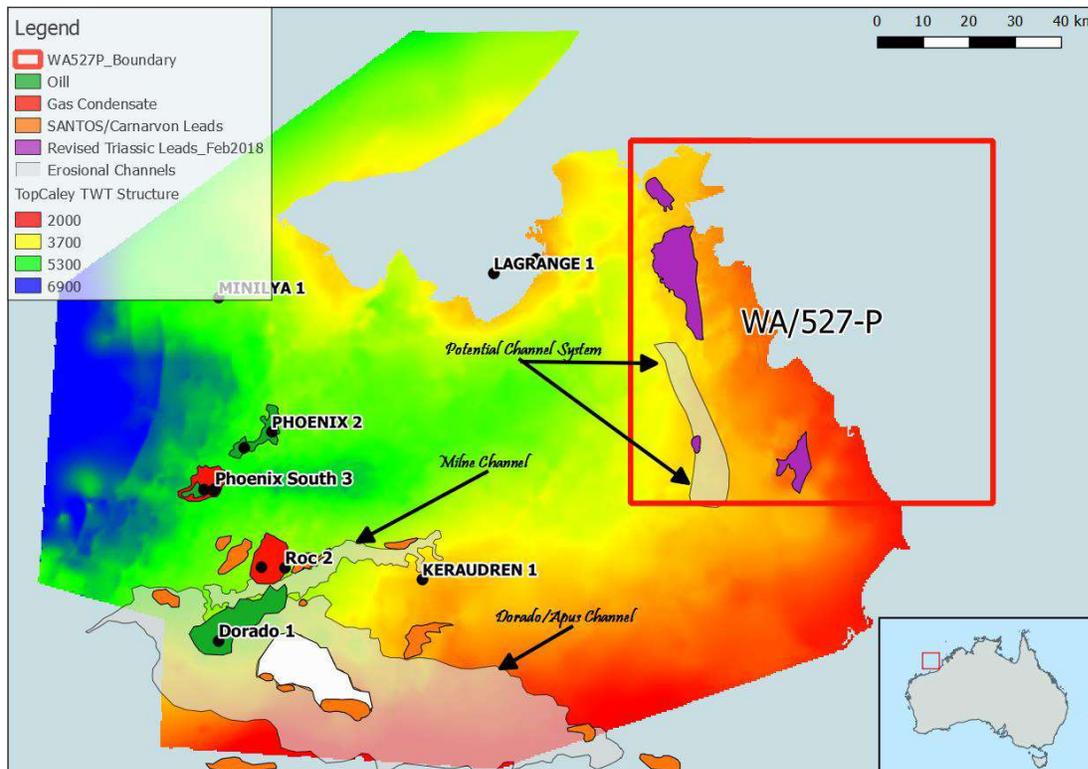
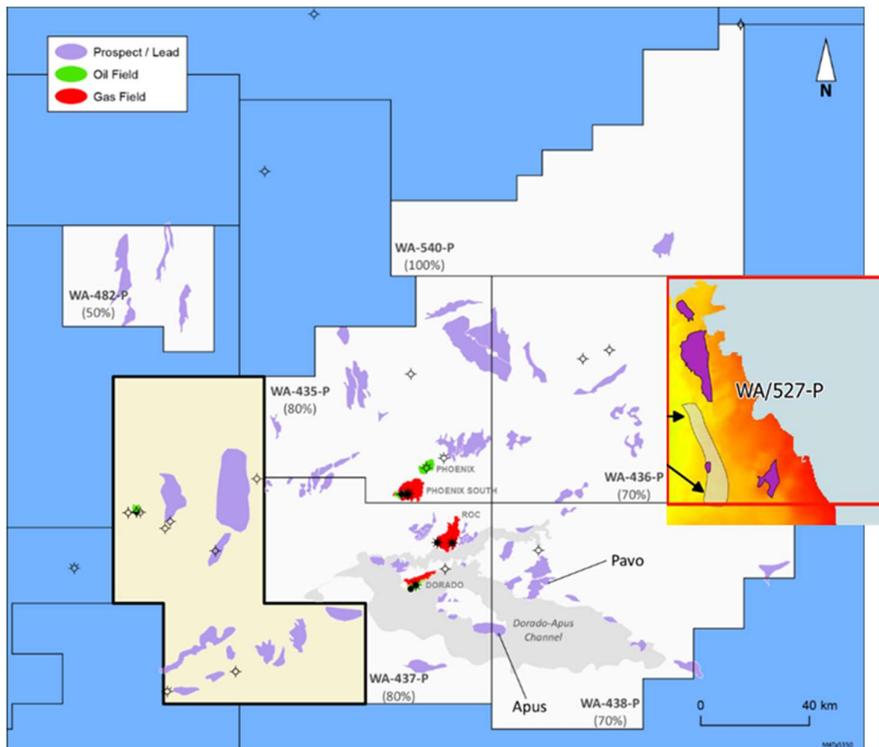


Fig 4: TDO permit WA-527-P in relation to recent STO acreage award...chasing the trend that could extend into TDO's area.



The WA-527-P permit is an early stage exploration phase and does not currently contain any drill ready prospects.

However, the company has identified 15 leads across the permit and completed a Prospective Resource estimate across the three that will be the focus of the upcoming 510km² Sauropod 3D-seismic survey.

We cannot definitively posit the success or characteristics of the Dorado discovery into the TDO permit at this time but with acreage along trend and a potentially defining 3D seismic survey to be acquired, we see TDO as a strongly leveraged exposure into an emerging oil and gas province.

Source: Company data.

These resource estimates are based on relatively sparse existing seismic coverage and will be subject to revision post the acquisition of new data, so should be considered as containing a significant error margin at this stage but the magnitude provides significant economic margin.

Figure 5: WA-527-P Prospective Resources estimate – recoverable oil (Mb)

Prospect	Low	Best	High	
Salamander	57	191	713	Lead
Jaubert	17	72	205	Lead
Whaleback	16	87	219	Lead
TOTAL	90	349	1,138	

Source: Company data.

Ascribing a notional value to this asset is highly subjective. We choose to benchmark against the pricing metrics used by STO on Dorado as part of the Quadrant Energy transaction, when Dorado had been discovered but was still associated with significant appraisal risk. We view those metrics as providing a closer like-like base to WA-527-P which is 'pre-discovery'.

The potential contingent payments agreed at the time suggested a unit rate of ~A\$2.00/b, which given the early stage nature of TDO's asset is a reasonable starting point.

Similar to our methodology on T/49P, we do not apply a unit metric across the whole Prospective Resource portfolio using only the Salamander lead, being the most obvious candidate for a well.

We calculate the risk weighted look-through value of WA-527-P to be around \$38mn and note the value could be positively impacted by the results of the upcoming Sauropod 3D seismic survey, particularly if it reveals coincident direct hydrocarbon indicators in a similar fashion to Dorado as the play analogue.

Additionally, we understand STO are keen to expand and accelerate the development potential of its acreage here with more 3D seismic planned for 2020 and up to three exploration wells in 2021. On success, STO could have a series of independent FPSO developments, producing liquids only, whilst re-injecting any gas for later production, perhaps as a greater combined project.

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Analyst: Andrew Williams

Release Authorised by: David Cutten

TAYLOR COLLISON LIMITED
Sharebrokers and Investment Advisors
Established 1928

ADELAIDE

Level 16, 211 Victoria Square
Adelaide SA 5000
GPO Box 2046
Adelaide SA 5001
Telephone 08 8217 3900
Facsimile 08 8321 3506
broker@taylorcollison.com.au

SYDNEY

Level 10, 167 Macquarie Street
Sydney NSW 2000
GPO Box 4261
Sydney NSW 2001
Telephone 02 9377 1500
Facsimile 02 9232 1677
sydney1@taylorcollison.com.au

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ABN 53008172450
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