



**Breakaway
Research**

November 2018

Oil & Gas Team

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www.breakawayresearch.com

Company Information

ASX Code	HPR
Share Price (A\$)	A\$0.065
Ord Shares (M)	186.05

Market Cap	A\$12M
Cash & RCO Investment(*)	A\$2m
Total Debt	A\$4m
Enterprise Value	A\$14M
(*) Est. post capital raising	

Directors

Chairman	Andrew Carroll
Director (Non-exec)	Anthony Wooles
Director (Non-exec)	Geoffrey King
CFO / Company Secretary	Jarrod White

Significant Shareholders

Noontide investments	24.8%
Anthony Wooles	12.2%
Geoff Loudon	7.4%
Andrew Carroll	5.6%

Source: Company

Company Details

Address	Suite 305, 35 Lime St, Sydney NSW 2000
Phone	+61 02 8296 0011
Web	www.highpeak.com.au

One Year Price Chart



Source: ASX

High Peak Royalties Ltd (HPR)

Leveraged to Resurgent Oil & Gas Industry Activity

Recommendation: BUY

Key Points

- **High Peak Royalty is a small but growing energy royalty owner that has recently completed an acquisition that will increase revenue and cash flow. It is exposed to movements in oil & gas prices. It is positively geared to re-activation of exploration and development activity in key permits. These are no-cost options on successful drilling outcomes and would drive the value and share price higher.**
- **Key points:**
 - **Owns a diverse portfolio of energy royalty interests in Australia and the USA and offers a direct exposure to revenue trends, from higher production or higher prices.**
 - **Re-invigoration of exploration & appraisal by independent operators, and planned re-opening of shut-in fields.**
 - **An acquisition and rising energy prices provide a material step-up in revenue in FY2019.**
 - **Sufficient funds and cash flow to repay debt and invest in new ventures, and access to a \$15M loan which could be used for acquisitions.**
- **Exploration and development activity in HPR royalty acreage provides catalysts and value upside, specifically:**
 - **Development by Shell of its QGC Qld coal seam gas acreage to feed its LNG export plant on Curtis Island.**
 - **Testing of Origin Energy's large Burunga South gas discovery below the Peat field in eastern Qld.**
 - **Drilling by Santos on the Dukas prospect in the Northern Territory in 1Q 2019, could unlock large resources in a vast region where HPR has royalties.**
 - **Re-activation of exploration activity offshore Victoria and in WA's Carnarvon Basin.**
- **Our core valuation of current royalty income is 6.5 cps on a DCF basis, with risked NAV to 21 cps driven by expected value capture from significant activity in Qld coal-seam gas, WA oil exploration and drilling in NT's Amadeus basin in 1Q 2019. Quantification of the Burunga South-2 gas appraisal in Qld provides additional value.**

HPR has revenue and cash flow momentum due to a recent acquisition and commodity price recovery, as well as a very large exploration & development option. There is little recognition in the market for the transformation underway. HPR's value is underpinned by DCF of current royalty revenues but the development /exploration /appraisal upside is discounted to nil. We assign a price target of 21 cps.



Leveraged to Resurgent Oil & Gas Industry Activity

Investment Case

HPR is geared to a recovery in energy prices and high-impact exploration, appraisal and development activity which if successful will drive future royalty income, at nil cost to the company. It has a free option over the investment undertaken and risks borne by other companies and in a valuation context some of the upcoming activity is highly significant to HPR in the event of success.

Value Stack: from Core Value to risked NAV of 21 cps

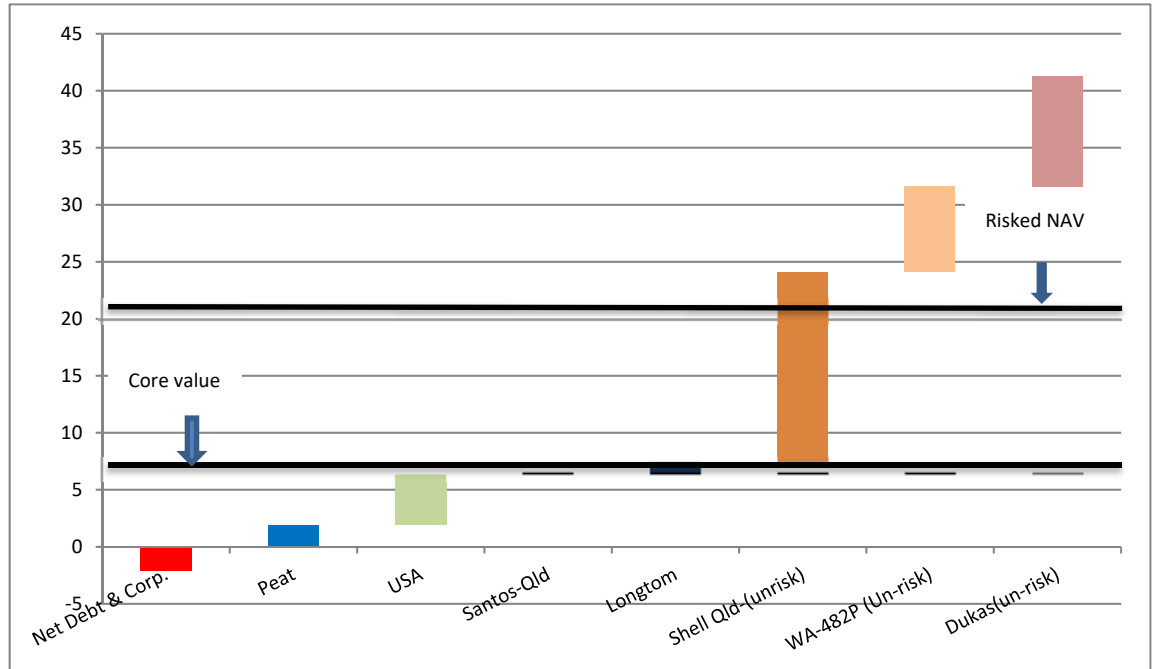


Figure 1. Value stack. Source Breakaway research. LHS in A\$ cents per share.

Figure 1 shows our base case, risked and un-risked NAV. Core value from existing royalties after allowing for debt and corporate costs is ~6.5 cps. However there are four large upside options. Three have reasonable definition and we have formed a view of risked value up to 21 cps. Un-risked upside, should all these projects succeed is >40 cps.

The oil & gas industry has recovered from four years of austerity and action in a number of licenses over which HPR has royalties is increasing. The most important in terms of value is the Shell-owned coal seam gas blocks in eastern Qld. A development to feed Shell's expanding QCLNG exports at Curtis Island could provide a large royalty stream with our best estimate \$7.5M p.a. This is >10x current revenues. Other possible developments in N T and WA offer large upside too as detailed in this report.

The Attraction of a Royalty Interest: Intrinsic Option Value Over the Success of Others.

Successful activity in a block over which HPR has a royalty drives value and there is nil downside for failure. For this reason royalty streams are keenly sought. They have an intrinsic positive option value. HPR owns a portfolio of royalties over oil and gas leases in Australia and the USA. The royalty is typically a small percentage of the revenue or profit from petroleum production ex-field, over the life of the field.

HPR is not an oil and gas exploration company. It does not explore, drill, develop or operate oil / gas fields. That work is undertaken by independent oil and gas companies. Royalty streams are common in the USA but in Australia, are rare and for this reason, probably poorly appreciated by Australian investors.

Royalty income depends on oil and gas prices and production volumes and along with the rest of the industry, HPR experienced a contraction in revenue after the 2014 oil price collapse. Decisive Board action and austerity measures reduced the rate of losses and negative cash flow and following a recent acquisition, HPR is poised to generate revenue growth and positive cash flow after 2019.



Recovering oil and gas prices will flow through to revenue, **but more importantly has kick-started activity in licenses where HPR has royalties.** HPR is dependent on drilling & development activity undertaken by others and the 2014 oil price collapse brought a lot of activity to a halt. The industry is now in a re-investment phase. Recent and upcoming drilling events expose HPR to very high upside for nil cost and provide price catalysts in 2019. Figure 2 shows the geographical location of HPR's Australian interests.

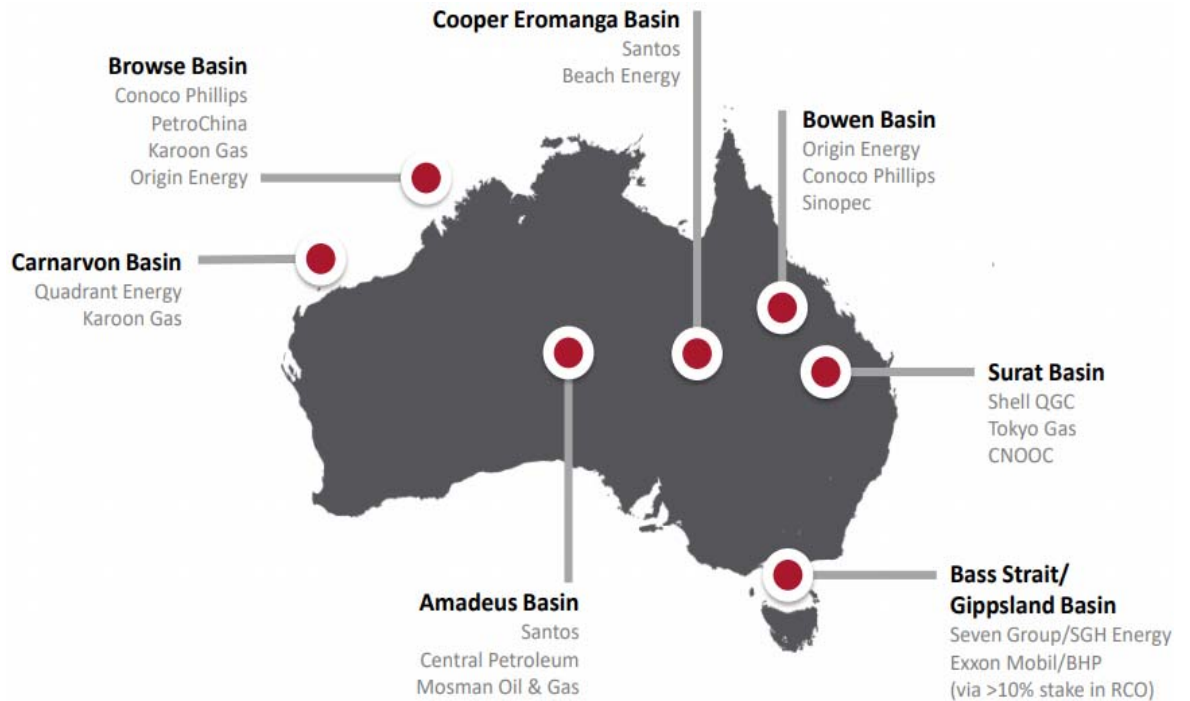


Figure 2. From HPR Investor presentation, October 2018

Extensive List of Royalty Interests

Figure 3 shows HPR's royalty portfolio, by region, and royalty type. Refer to Appendix A for discussion on the various types of royalty.

Permit	Location	Royalty interest- %	Royalty Type(*)	Operated by
PL 171 & ATP574	Qld, Surat	2.5	ORI	QGC/ Shell
ATP299 -Tintaburra	Qld Cooper Basin	3.6-4	NPI	Santos
PL101- Peat Gas field	Qld, Surat	2.13	ORI	Origin Energy
PL6- Surprise oil field	NT- Amadeus	1	ORI	Central Petroleum
VIC/L29, Longtom gas field	Vic offshore	0.3	GOR	Seven group
WA-314P	WA offshore	0.1	ORI	Karoon Gas
WA-315P	WA offshore	0.1	ORI	ConocoPhillips
EP111-115-120 &124	NT- Amadeus	1	ORI	Central Petroleum
EP112-115NM & 125	NT- Amadeus	1	ORI	Santos
WA-482P	WA offshore	0.2	ORI	Quadrant
EP155 & 156	NT- Amadeus	2	ORI	Mossman Oil & Gas
USA	East Texas & Permian.	0.2-0.4	ORI	Various
USA	East Texas	1	ORI	Various
USA-"Planet Gas" package	Kansas, NY & Pennsylvania	3		Various

Figure 3. List of royalty interests. Source: HPR 2018 Annual Report. (*) Refer to Appendix A for a description of royalty types.



Old production, exploration and appraisal is a key price driver

HPR's acreage interests in Queensland generates revenue from oil and gas, providing price exposure, and exposure to gas discoveries and development of coal seam gas acreage for LNG exports.

Eastern Queensland Gas in the Surat Basin

HPR has a 2.13% revenue royalty over Production Licence PL101, which contains the Origin Energy operated Peat CSG gas field and the Burunga South-2 gas discovery, and has a 2.5% ORI over PL171 & ATP574 owned by Shell. All these licenses offer significant upside. Figure 4 shows the location of permits in the Surat Basin.

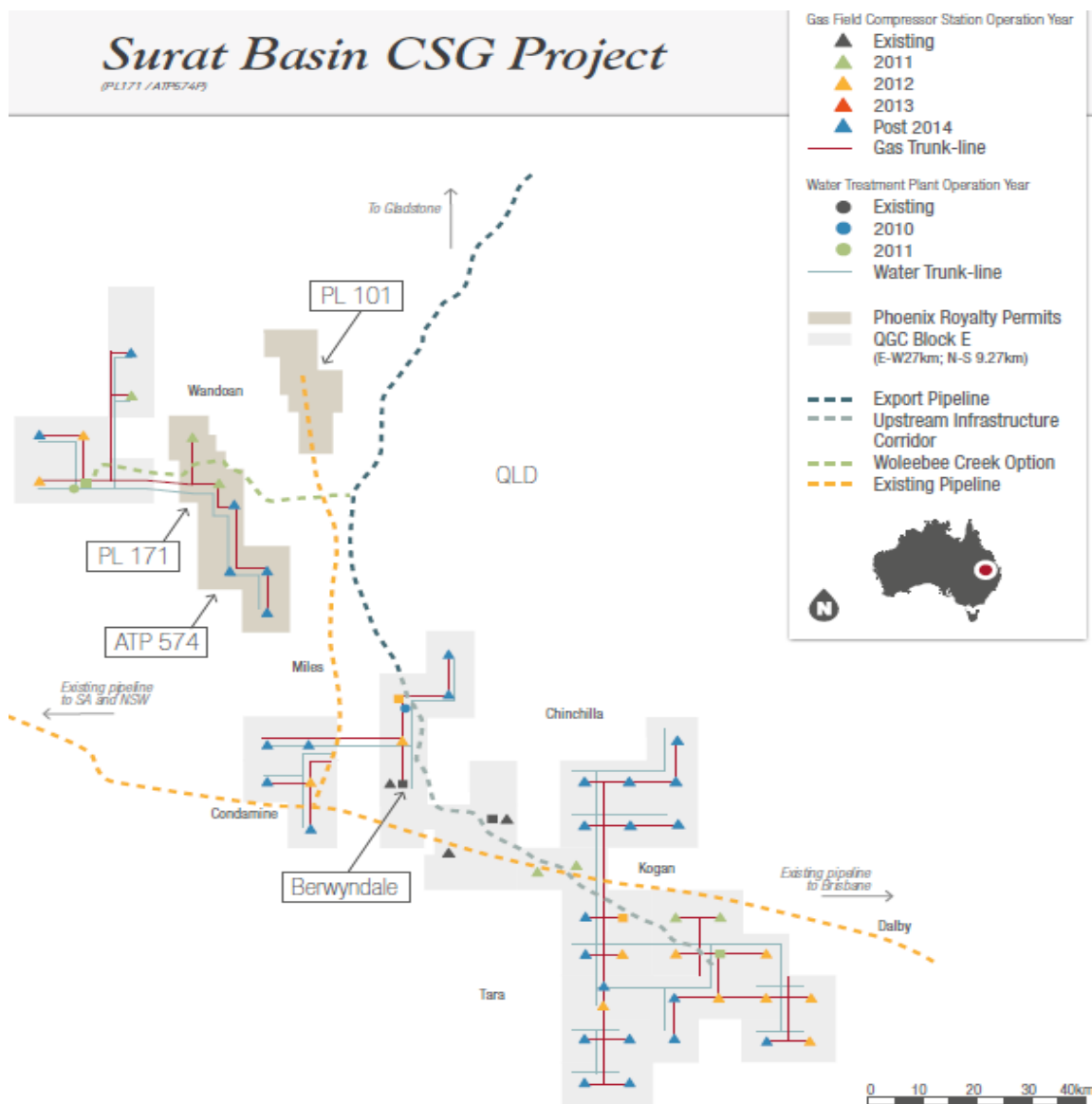


Figure 4. QCLNG and Origin Energy permits in the Surat basin, Qld

Peat has been in production since 2005 and producing 6-8 TJ/d from ~21 wells. Remaining 2P reserves at Peat were 145 PJ, as at June 30, 2016, according to Queensland Government data. The field produces gas for the domestic market, and is expected to benefit from re-pricing as low-priced legacy domestic gas contracts roll off and are replaced by oil-linked LNG. During 2015-2017, there was no royalty income, due to old contracts at low gas prices, which we estimate were <\$3/GJ, and unusually high costs (that are being audited). Royalty in 2018 was ~\$50,000 reflecting a gradual gas re-pricing. We believe resolution of the mechanism used to calculate the royalty, and higher gas prices will lead to increased royalty revenue from 2019. Current prices for gas in south east Qld are >A\$9/GJ, and in the September quarter of 2018, APLNG realised an LNG export price of US\$9.63/mmBtu. This equates to ~A\$13/GJ.



There is potential for gas beneath the Peat field. In its report for September 30 2018, Origin Energy disclosed that the South Burunga-2 well reached a total depth of 3608m and confirmed the presence of hydrocarbons. The well has been cased and suspended, and testing is required to determine commercial deliverability. The well penetrated deep sands below the shallow Surat Basin coals seam gas beds, and could contain a large volume of gas but at this time we have no guidance on the potential size of this discovery. This is significant for HPR due to (1) the relatively high ORI of 2.125% and (2) the existing Peat production infrastructure and pipeline providing opportunities for rapid commercialisation.

At this time we have no guidance on the potential size of the discovery and for this reason we do not include this in our risk NAV.

Development of Shell CSG Acreage in Eastern Qld: Very Significant for HPR

HPR has 2.5% ORI over PL171 & ATP574 owned by Shell and both offer very high upside.

These permits are strategically located not far from QCLNG's Wollobee Creek gas plant and are large, covering 406 km². Previous participant Victoria Petroleum (now Senex) estimated a gas-in-place figure in the order of 2 Tcf. There is significant commercial and development activity in the region and it is relevant to HPR.

On November 11 2018, QCLNG and APLNG announced an infrastructure sharing deal, including sale of 350PJ of gas to APLNG, from 2024. This gas sale is contingent on QCLNG developing specific Surat Basin gas fields. Development in this area will result in infrastructure expansion in licenses around those over which HPR has ORI, most of which are Shell operated. We have developed an indicative valuation as discussed later, on our assumption that the acreage will be developed as part of a broad Shell-led development, with production commencing mid next decade.

There is significant activity in adjacent acreage that is relevant, as follows:

- In August 2018, Central Petroleum (ASX: CTP) was awarded ATP2031, covering 77 km² over the prospective Walloon CSG fairway. An estimate of resource potential provided by the Qld Government is 377 PJ of Original Gas-in-place, of which 150-180PJ is potentially recoverable. This acreage is adjacent to ATP574 and targets identical coal seams.
- In September 2017, Senex (ASX: SXY) was awarded a 58 km² block, located immediately to the west of the QGC lease PL510. Senex claims a P50 resource of 201 PJ. Development plans announced in 2018 target production of 40 TJ/d, approximating 15 PJ p.a.

The Senex and Central Petroleum resource estimates assigned to the recently gazetted blocks frame our assumption of resource potential in the HPR blocks, which are 7x the size of the CTP/ SXY blocks combined. We incorporate this data in forming a value as discussed later in this report.

Qld Cooper Basin Oil Assets, Santos Operated.

HPR has an average 3.6-4% net profit interest (NPI) over a series of mature oil fields, otherwise known as Tintaburra in the Eromanga Basin, which forms the eastern extremity of the Cooper Basin. The fields are operated by Santos and have been in production since the 1980's. Current production from >50 wells approximates 500 bopd. Remaining 2P oil reserves as at 30/6/2016 were 2.3 MMbbls. The royalty stream has been modest in recent years, and in 2017 & 2018 zero, impacted by low oil prices.

Rising US\$ oil prices and falling A\$/US\$ should drive income from this field higher. Renewed drilling activity by Santos in the Cooper Basin may result in decline rates being reversed.



Royalty Assets the USA: Growing and Diversifying.

HPR has been building a portfolio of royalty interests in the USA from 2014 to broaden its revenue base and achieve geographical diversity and a better balance of exposure to oil vs. gas. This came at a time when HPR's royalty streams in Australia were declining due to field shut-ins (at Longtom & Surprise) or due to low product prices.

In December 2014, HPR bought royalties over 43 wells spread across different basins in Texas for US\$350,000. In November 2016, HPR acquired royalties in 7 wells in east Texas for a further US\$230,000. These provide ~A\$200,000 revenue p.a. and a platform for searching for additional opportunities.

On October 15, 2018 HPR reached agreement to acquire Planet Gas USA, which owns an average 3% royalty interest in ~2000 wells in Kansas, Pennsylvania and New York. The acquisition price was US\$1, but assumes a US\$2.75M loan with Macquarie Bank. HPR states that based on August & September revenues the royalty stream is US\$350,000 p.a. (about A\$500,000). The effective date is October 1, 2018. From that time HPR's combined royalty revenue from the USA will approximate A\$700,000 p.a. at current prices.

Principal loan repayments on the Macquarie Bank loan will consume a portion of the revenue, with US\$0.75M due in 30 days, and US\$0.25M on the first and second anniversaries. A bullet -payment for the balance of US\$1.5M is due in the third anniversary.

Exploration Upside: NT & WA have Potential for Large Discoveries

HPR is exposed to some very large prospects which we believe will be subject to exploration wells over the next 1-3 years, specifically offshore WA, and onshore in the Northern Territory's Amadeus Basin.

Exploration in the Amadeus Basin, NT: an Exciting New Frontier

HPR has a 1% ORI over ~23,700 km² of acreage in 8 permits in the southern Northern Territory's Amadeus Basin which has been in production since the 1980's. Refer to figure 5 for location map.

Moves to unlock what are theorised to be large conventional gas resources buried deep below salt layers have moved forward with Santos intention to drill the Dukas prospect in early 2019, in permit EP112.

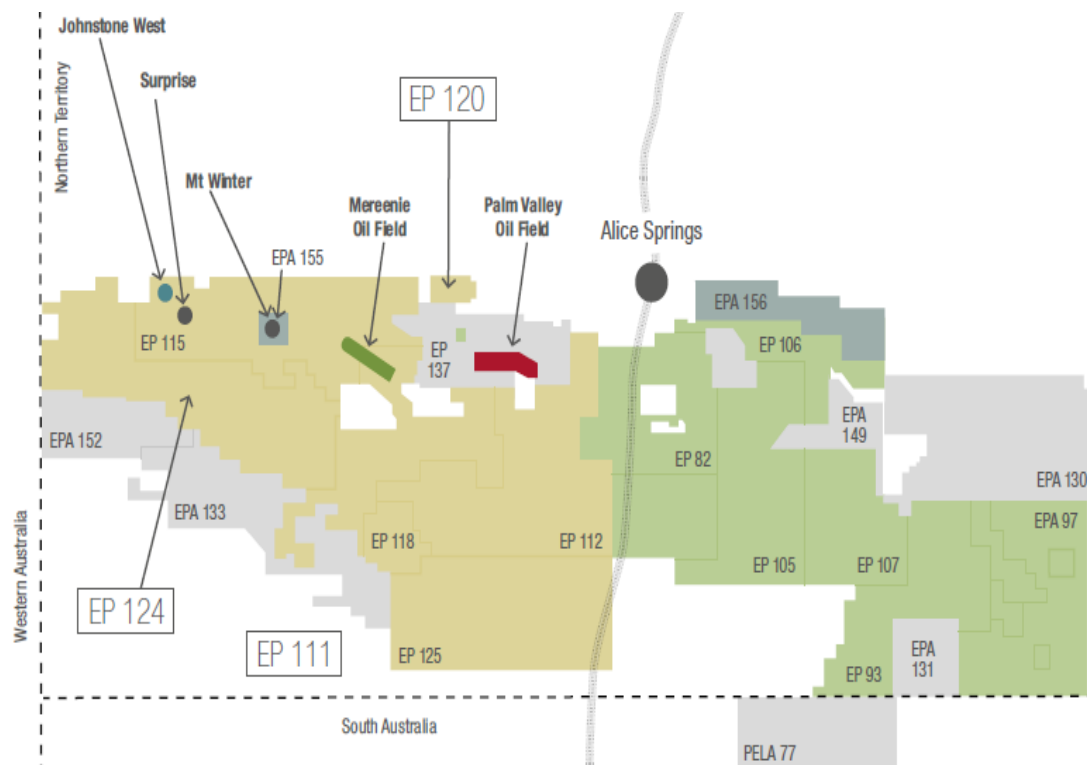


Figure 5. Amadeus basin license interests. Source: HPR website.



Santos investor presentations outline the 520 km² Dukas prospect, as having a “multi-Tcf” potential and HPR indicates in its October 2018 Investor presentation a prospective resource of 2.4 Tcf of gas and 493 Bcf of Helium. Relative to gas, Helium is very valuable, commanding at least 10 times the price of natural gas. Other wells have been drilled in the region confirming the presence of oil, gas & Helium.

To put some context around the market value of a resource this size at current prices of say \$7/GJ for gas (ex-field) and \$70/GJ for He, the revenue potential equates to A\$51 Billion and HPR’s 1% revenue royalty over this, A\$510M, before field processing costs. These are obviously very large figures.

Geologically this is a highly exciting event, as in other parts of the world so-called “Pre-salt” geology can yield giant discoveries, for example offshore Brazil where multi-billion barrel oil fields have been found. The existence of a thick salt layer is significant, as it constrains the upward migration of Helium molecules.

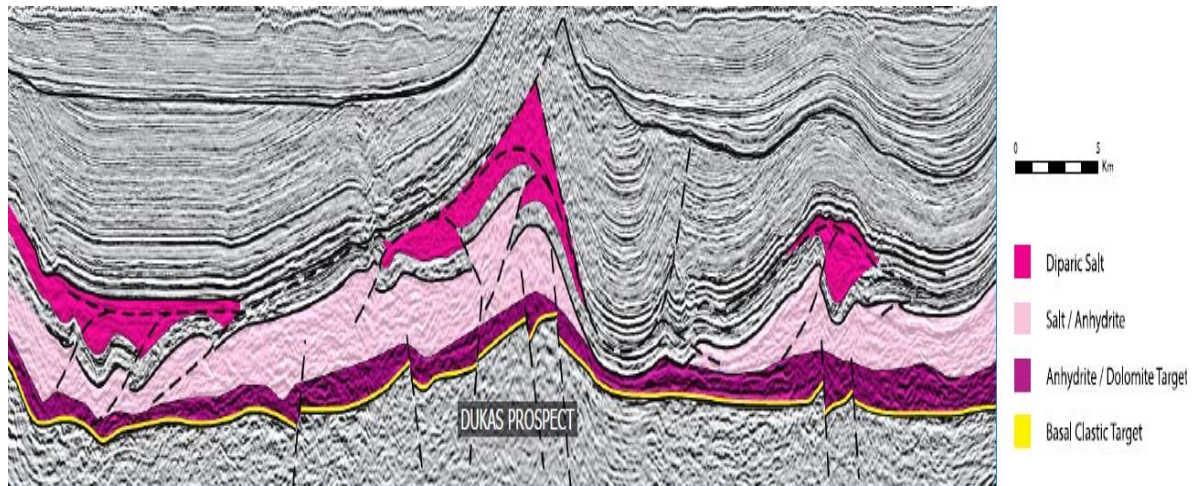


Figure 6.. From Santos, cross section of Dukas prospect & location

This is a new exploration will be keenly observed by industry participants for its possible geological and gas market implications. For example, Santos shows in its presentations, a pipeline to its Moomba gas plant in SA. Figure 6 is a geological cross section. HPR is positively leveraged to this drilling event and we would expect some share price momentum around the time of drilling, and we include a value in our riskd NAV.

Redevelopment in Bass St, at Longtom Gas and Exploration

HPR have a 0.3% Gross Revenue Royalty (GOR) over VicP54 and production licenses containing the Longtom gas field, and exploration prospects. Longtom was developed by Nexus Energy, and production commenced in 2010. Production ceased in January 2013 due to electrical problems at the Patricia-Baleen field, through which Longtom gas flows. Over the production life, total production was 50 PJ for cumulative revenue of A\$227M. Subsequently Seven Group acquired Nexus and the Longtom assets in 2014.

Since that time industry dynamics have changed and Seven Group has defined a strategy to participate in the east coast gas industry. In its latest market releases, Seven Group states it is establishing a “pathway to market” for the remaining 80PJ of gas in Longtom, which may include drilling additional development wells, such as Longtom#5, and exploration on prospects such as Gemfish and Longtom West. Refer to figure 7.

We believe a field re-start is highly likely in CY2020 and we include a DCF value in our core NAV. We do not include value for exploration on surrounding prospects.

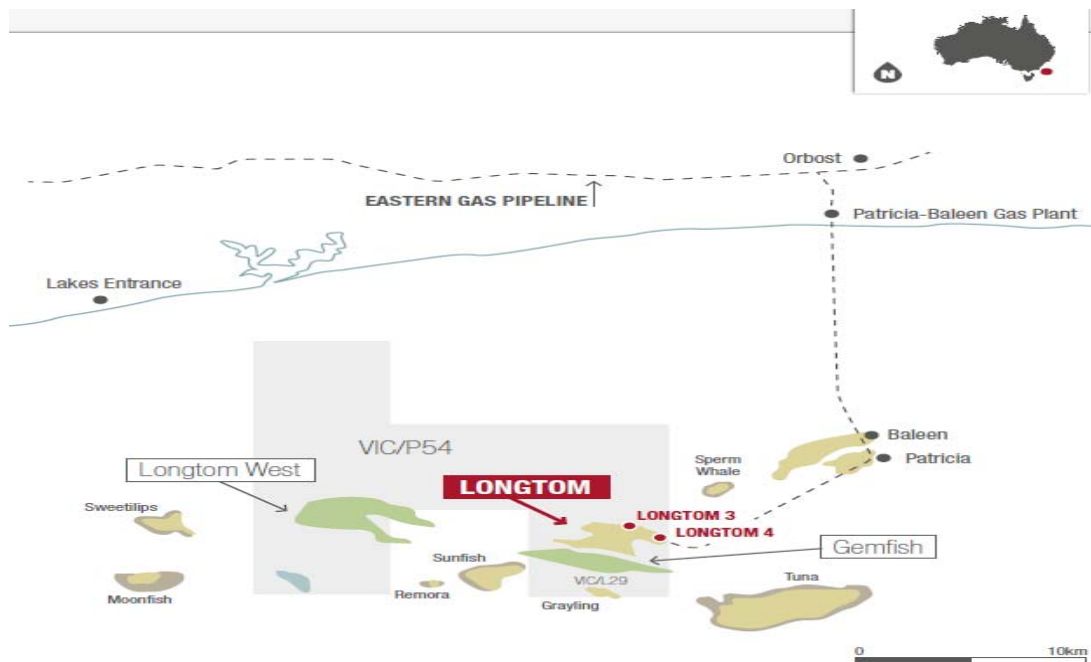


Figure 7. Longtom field and exploration prospects. Source: High Peak Royalty website

Offshore WA: Industry Excited by the Dorado Oil Discovery.

HPR has ORI royalties over three very large licenses located offshore Western Australia. These are 0.1% over WA-314P (Operator: Karoon Gas), WA-315P (Operator: ConocoPhillips) both in the Browse Basin, and 0.2% over WA-482 (Operator: Quadrant, Karoon Gas) in the north Carnarvon Basin.

WA-314 is a relatively small permit and geological work by the operator Karoon Gas in recent years on specific targets has been unable to de-risk the primary prospect, Elvie to the point of drilling. In FY2017, Karoon fully impaired its investment in the block. The current three year exploration program term expires in October 2018. Future activity will depend on the operator proceeding to the next term.

WA-315 (ConocoPhillips- operator / Origin Energy). This block contains the Poseidon#1 gas discovery well drilled in 2009, and along with other wells drilled in the adjacent block WA-398, has established a multi-Tcf gas field. The operator progresses studies to develop the gas for supply to its operated LNG plant at Darwin, in competition with supply from other sources. Separately, the INPEX-operated Ichthys LNG project in Darwin has commenced operations with gas supplied from the Ichthys field which is approximately 150 km to the east of Poseidon. It's possible that in the future, Poseidon gas could be developed as a source of additional gas supply for Ichthys LNG. If so, then a portion of the gas that is in WA315 could generate a royalty stream for HPR but at this time the likelihood, timing and quantum is uncertain.

WA-482P (Karoon 50%, Santos-Quadrant 50%) is a huge permit covering 13539 km² in the north Carnarvon basin. It contains 10 big prospects, with a prospective resource best estimate of 2.8 billion boe, according to updated estimates from Karoon Gas.

Discovery this June of oil in deep Triassic sediments at Dorado#1, has ignited industry interest. HPR has no exposure to Dorado, and WA-482 targets Jurassic sediments and so is not geologically analogous. However the key point from Dorado was the ability of modern seismic and latest technology to successfully "see" structures as deep as 6000m. These are record drilling depths for this region.

In 2017, the Capreaolus 3D seismic survey was undertaken. This very large survey covered 82% of WA-482P. Following this, Karoon Gas updated its prospects inventory as shown in figure 8. The year 6 work program expires in March 2019, at which time the WA-482 partners will mandatorily relinquish 50% and submit plans for the next phase of work. A work program including exploration wells would be highly likely in our view, given the number of leads and size of the prospective resource. Figure 9 shows the geographic location. Our Risked NAV assumes a future discovery from the acreage.



WA-398 prospective resources (100%)	Low	Best	High
MMboe	890	2796	7454

Figure 8: Prospective resources in WA-482P, as detailed by Karoon Gas in its FY2018 Annual Report

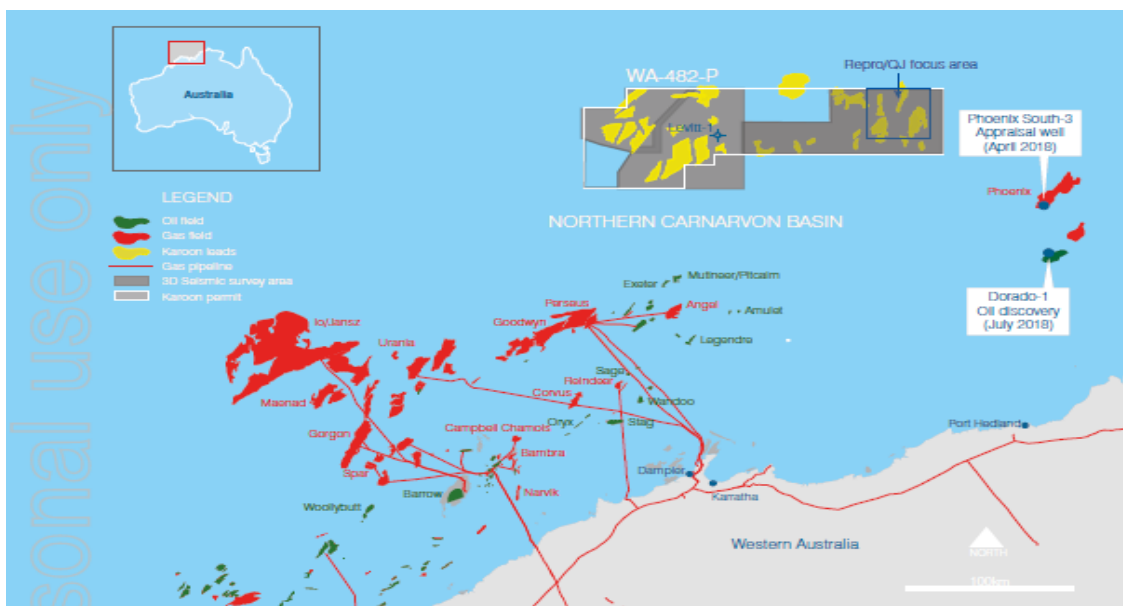


Figure 9: WA-482-P location map. Source: Karoon Gas 2018 Annual Report. Relevance of map is to convey scale of permit relative to other major fields in the waters offshore WA

Financial Trends: Positive Momentum.

HPR's financial history is summarised in figure 10.

Year to June 30	2013	2014	2015	2016	2017	2018
Royalty revenue	258	317	196	52	141	226
Investment income (RCO div)			53	110	55	0
Interest & other	63	46	101	25	27	37
Profit on sale of royalty/ other			31	0	20	0
Total- A\$'000	321	363	381	187	243	263
Costs						
Wages & director fees	477	575	538	642	291	259
Professional service fees	350	617	446	335	176	247
Impairments	0	1187	2310	3178	0	0
other costs	527	683	660	646	98.9	120
Pre-tax loss	-1033	-2699	-3573	-4614	-323	-363
Asset snapshot						
Total assets (A\$M)	13.36	20.97	16.78	12	11.3	11.7
Debt (A\$M)		0.42	0	0	0	0
Net Assets (A\$M)	12.34	19.88	16.3	11.7	11.5	11
Cash flows- A\$'000						
Operating cash flow	-588	-1364	-1005	-1072	-411	-285
Acquisition of royalty rights	-402	-107	-2825	-345	-314	
Proceeds of sales		8036	10	0	1190	53
Equity issue	3005	-437	0	0	0	
Debt	-1240	-540	-420	0	0	
re-purchase of shares			0	0	0	-120
Change in cash	775	5588	-4240	-1417	465	-352
Cash at year end- A\$'000	1130	6718	2476	1058	1523	1178
Segment revenue- Australia	321	363	361	129	106	90
Segment revenue- USA	0	0	20	33	139	174

Figure 10. Key annual financial statistics, from HPR annual reports



Revenue trends show the royalty model in action. Rising prices during 2012 -2014 were offset by the loss of Longtom production in early 2013. The 2015-2016 years reflect the depths of the global oil price crash, and weak domestic gas prices during the period of LNG “ramp-up” when excess field gas was dumped into the domestic market at very low prices. The 2017 and 2018 years show the steady growth in USA revenue from acquisitions.

Our revenue forecasts are shown in figure 11 and capture our best estimates of price and volume trends, with price trends more significant. In addition, the trend shows the contribution from the newly acquired USA stream from 2019 on a pro-forma (full year) basis. The Longtom contribution is not certain but we think highly likely as per stated intentions of the operator, Seven Group, from 2020

Estimated annual revenue- A\$000	2013	2014	2015	2016	2017	2018	2019	2020	2021
Peat	47	40	0	0	0	51	99	150	153
Surprise oil field	8	13	13	0	0	0	0	0	0
Longtom	155	157	95	0	0	0	0	180	360
ATP-299	47	107	68	18	27	30	66	56	48
USA- Dillon Fund & others	0	0	19	34	114	145	200	204	208
USA-Planet gas							500	500	510
Total Royalty revenue	258	317	196	52	141	226	865	1090	1279

Figure 11. Revenue projections. Source: Breakaway Research

Capital Adequacy

- Cash at September 30, 2018 was A\$1M. In October 2018, HPR undertook an equity issue. It placed 22.1m new shares at 0.054 cps to professional investors raising \$1.1M before fees. This was the first raising since 2013
- Liquid investments are 5.43M shares in Royalty Co (ASX: RCO) which has a current market value of \$1.1M, at the last price of 21.5c
- Macquarie Bank loan after settlement of the Planet Gas deal is US\$2.75M. Debt repayments are US\$750K after 30 days, US\$250k on the first and second anniversaries, and a bullet repayment of US\$1.5M on the third anniversary.
- Cash outgoings to run the company and pay administration expenses approximate A\$450,000 p.a. and on this assumption, we forecast HPR to cash flow positive in 2019, with Planet Gas contributing from 1 October 2018, and higher from 2020 with Longtom resumption potentially as early as 2019.

Valuation & Price Target. Risked NAV 21 cps.

We have cash flow models for each asset based on the revenue projections in Figure 11 and further assumed that admin costs are the only significant cash outflow. Our risked NAV is shown in figure 12.

A DCF of the pro-forma 2019 cash flows to life-of-field at a WACC of 8% returns a core equity valuation of 6.5c after adjusting for debt, cash, the RCO investment and capitalisation of corporate costs.

Valuation of the exploration, appraisal & development assets is more subjective. We have developed theoretical cash flow models based off near-field analogous projects, appropriately risked for level of uncertainty. Development & exploration assets we have assessed and assigned value are:

- gas production from the Shell gas fields in Qld, from mid next decade
- a Dorado “look-alike” oil discovery from exploration permit WA-482P.
- The Dukas-exploration well in NT EP112, in 1Q 2019

These are very material to HPR if the field operators are successful.



We have outlined already the significant field activity taking place in each of these regions, and as a check, there are numerous field analogues on which to build reasonable estimates of revenue potential and are discussed in the assumptions section.

The risked upside from these exploration, appraisal & development activities projects approximates 14.5 cps, with book-ends zero to 41 cps.

The downside if all this activity results in no commercial development is zero. The un-risked (100% success) upside case is 41 cps.

Our target price is 21c and explicitly recognises that some of the option value could be captured in early 2019 due to:

- Confirmation of development plans by Shell in eastern Qld.
- Move to next phase of exploration on the large and prospective WA482P in 2Q 2019.
- Drilling of the Dukas well in the Amadeus Basin, in 1Q 2019

We have not included value for other activity because we lack data or benchmarks at this time to form a reasonable view. This does not imply the asset is value-less, only that a figure is indeterminate, at this time. These other assets are:

- Origin Energy's planned tests on the Burunga South-2 gas discovery in PL101.
- Future development of the Poseidon field offshore WA.
- Exploration in Bass Strait on other prospects in VicP54

Production Royalties	A\$M		CPS	
Production				
PL101-Peat	2429		0.01	
USA- Planet gas	8360		0.04	
USA-Dillon	3258		0.02	
Santos- Eromanga oil fields	360		0.00	
Pre-development				
Longtom	1494		0.01	
Core enterprise value	15901	15901	0.09	
Cash / Investments	3300		0.02	
Debt	-3929		-0.02	
Corporate costs	-3214		-0.02	
Core equity	12058	12058	0.06	
Exploration, Appraisal & Development	Un-risked	POS	Risked	
QGC Developed PL510/574	44076	50%	22038	0.12
WA-482 Oil discovery	13936	20%	2787	0.01
Santos- NT - Dukas	17965	15%	2695	0.01
WA-315P: Poseidon residual		NA		
Burunga South gas discovery		NA		
Risked upside	75976		27520	0.15
Total value			39578	0.21

Figure 12. Valuation stack. Source: Breakaway Research. (*) Cash and debt are pro-forma after completion of USA Planet gas acquisition.



Assumptions

Price assumptions in our DCF are shown in figure 13. Other specific assumptions are:

- An oil discovery in WA-482. We have assumed a 180 MMbbl field producing at initial rates of 70,000 bopd, with first production possible from 2024, analogous to Dorado and the potential volume impact as guided by Santos. We risk theoretical cash flows at 20%
- Our Shell Qld CSG acreage development in the Surat licenses postulates a 250 T/d project delivering 1400 PJ of gas over 20 years from 2025. This could generate a royalty in the \$5-10M p.a. range and our base case is A\$7.5M p.a after tax. We risk theoretical cash flows at 50%.
- Restart of the Longtom Project in CY 2020 and production of 15 PJ p.a to produce 80PJ in total
- Re-pricing of Peat gas to reach export parity, less transport and process tolls, by 2021, and clarification by the Qld Government on mechanism for calculating the royalty. This could result in lower deductions being allowed in the field, a higher net-revenue and a higher royalty.
- We assume a Dukas gas/Helium discovery following by field development in 2025, risked at 15%.
- We have not assigned explicit value to Burunga South and Poseidon gas due to lack data to form a reasonable view at this time.
- DCF of existing royalty stream on a pre-tax basis as HPR has tax losses. Royalty streams from a Shell development, Dukas or WA oil discovery are assumed fully taxable as they are large.

Assumptions	2019	2020	2021	LT Esc
Brent oil price- US\$/bbl	80	80	80	+2.5%
A\$/US\$ rate	0.72	0.72	0.72	0.72
Qld- CSG (Net-back price)-A\$/GJ	7.0	7.0	7.0	+2.5%
NT-Amadeus- A\$/GJ	7.0	7.0	7.0	+2.5%
WACC	8%			
UA-Henry Hub- US\$/mmBtu	3.0	3.0	3.0	+2.5%

Figure 13.Source: Breakaway Research

Peer Group & Other Valuation Measures.

There are only 2 local peers, Royalco and Fitzroy River. Refer to figure 14.

	Fitzroy River FZR	Royalco RCO	High peak HPR	HPR-Proforma @ Last	HPR-Proforma @ target Price
Price	0.20	0.215	0.06	0.06	0.21
Cash & Investments A\$M	7.6	2.1	2.2	2.6	2.6
Shares on issue	88.5	52.7	164.0	186.1	186.1
Market cap- A\$M	17.7	11.3	9.8	11.2	39.1
Debt- A\$M	0.0	0.0	0.0	-3.9	-3.9
EV- A\$M	10.1	9.2	7.6	12.5	40.4
2019 pro-forma Revenue			865	865	865
2018 Revenue	240	804	263	263	263
2017 Revenue	207	670	243	243	243
2018 Pre tax profit	-929	-422	-363	-363	-363
2017 Pre tax profit	-794	-824	-323	-323	-323
EV/Rev- 2019 pro-forma				14.4	46.7
EV /revenue- 2018	42.2	11.5	29.0		
EV /revenue- 2017	48.9	13.8	31.4		

Figure 14. Selected peer valuation comparisons (Source: Breakaway Research).



Both peer companies were not profitable or cash flow positive in 2018, and both have greater losses than HPR. Thus it's not possible to apply traditional equity market valuation measures such as PER or EV/EBITDA.

It is reasonable to apply an EV/Revenue multiple, but the peers range from 11.5x to 42.2x and this is too wide to apply in a meaningful way. Both RCO and FZR are small and thinly traded, so the equity market value may not be reliable as valuation benchmarks. We do not have valuation models on either company. At the current share price the EV/Revenue multiple is 14.4x, and is mid-way between the two peers. At our price target, it is higher than peers.

Risks to Price and Volume

The key risks to HPR's revenue stream are from (1) price reversals and (2) volume declines from mature fields and (3) delays in developing or re-starting fields that HPR has royalty coverage.

- Oil prices have rallied this year and may reverse if the global economy enters a recession, or if OPEC/ Saudi Arabia step up production leading to over-supply. A reversal in oil price would ultimately flow through to LNG and domestic gas prices.
- Production levels are outside of HPR's control. Fields such as Peat & Tintaburra and in the USA are mature and may not offer volume growth, other than ongoing efforts by the operators to maintain output or mitigate decline.
- The value in future projects such as Longtom, Shell's Qld acreage, Origin's Burunga gas and NT Amadeus basin exploration and WA exploration is dependent on future development. The timing and likelihood is outside of HPR's control and developments are not certain.

Industry Backdrop: Price Trends

Prices for oil, domestic gas and LNG exports are recovering. Strengthening domestic gas prices add value to HPR's royalty income from Peat, and option value from Longtom, the Shell's Qld gas fields, the Burunga South gas discovery, and gas-focused exploration in the NT. Figure 15 shows recent domestic gas price and volume trends.

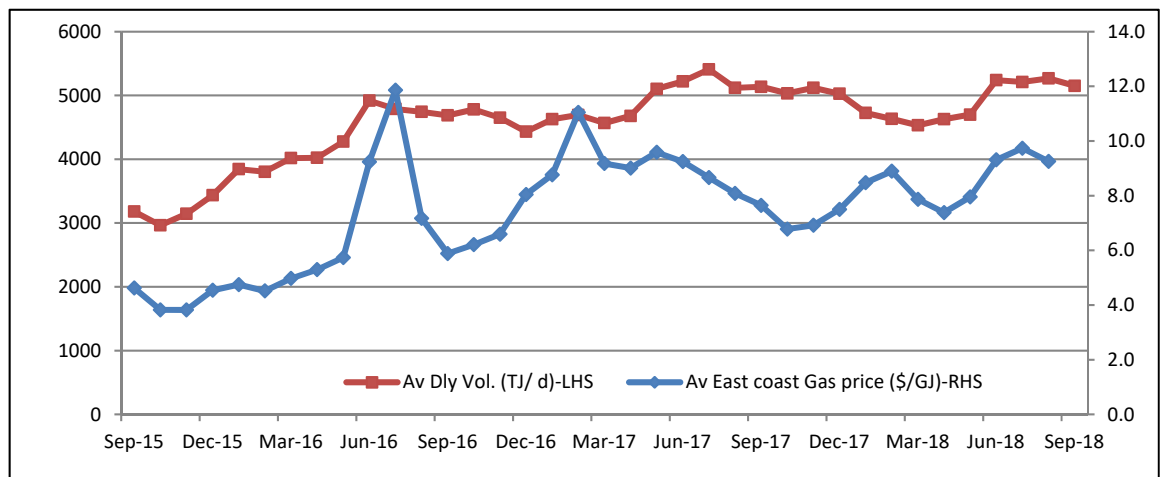


Figure 15: Domestic gas price and volume history. Source: AER Weekly gas market report

There are a number of factors which are forcing gas prices higher

1. Declining supply from conventional fields and pressure on CSG fields to meet LNG exports.
2. Rising oil prices which flow through to LNG prices and domestic gas prices.
3. Potential for regulation or Governmental interference in the market, with price controls or export limits proposed by various political and other groups. Currently, there are legislative impediments in place which ban or limit drilling or fracking activity in NSW, and Victoria. Fortunately for HPR, Queensland is one state



where oil and gas development is unconstrained and this is where HPR has significant acreage, and in the NT the fracking moratoria is being lifted paving the way for work programs in acreage in southern NT where HPR has royalties.

In our assessment of HPR's royalty income from domestic gas, we assume a A\$7/GJ gas price ex-field over the outlook period. This is in line with current spot prices, which are A\$9-9.5/GJ on a delivered basis. Our view on oil prices is that they are likely to remain in the \$75-\$85/bbl range longer term, and we think scope for oil-related revenue growth from current levels, is limited given the recover that has already occurred.

USA: Price Trends

The Planet Gas royalty package provides exposure to oil and gas volumes in the USA and thus future price trends are important. WTI oil prices are on a recovering trend, in sync with global oil prices. USA gas prices have been static and relatively low, and there appears to be plentiful supply from specific regions such as the Permian Basin of West Texas, to meet US domestic demand and LNG exports. Our revenue projection from 2019 for HPR's USA revenue assumes inflationary growth only.

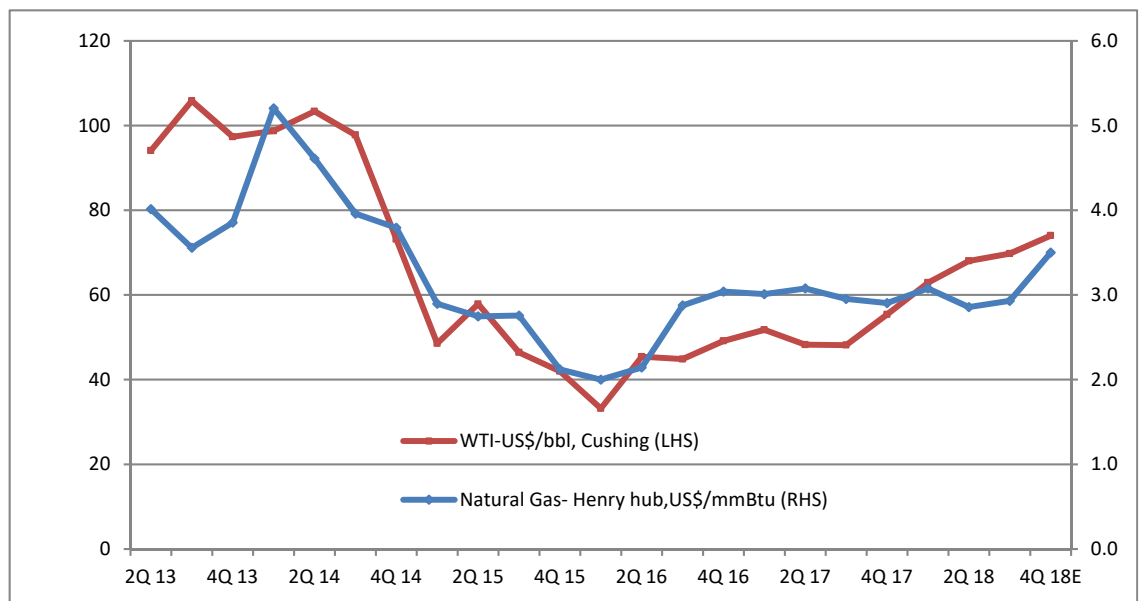


Figure 16: Historical USA oil and gas prices. Source: NYMEX and Henry Hub.

Board and Management.

The Board was strengthened in 2017 to implement austerity measures. The company has no permanent staff, as is appropriate for a company of HPR's size and business model, but industry professionals and consultants are engaged when needed. Board members are all highly experienced in E&P and provide additional managerial resources.

Director and Executive Backgrounds

Mr A. R Carroll. BA, MA, SPE
Non-Executive Chairman, appointed 27 November 2017

Mr Carroll is an engineer and co-founder of Phoenix Oil and Gas Ltd. He has over 35 years of international oil and gas experience having originally trained with BP and then having held a wide range of board, senior management and consultancy roles with a number of oil and gas companies including Dome Petroleum / Amoco Canada, Ampolex and InterOil.

Mr Carroll has also been a member of the Society of Petroleum Engineers for over 30 years.



Mr G.J King, BA, LLB
Non-executive Director

Mr King is a lawyer with over 40 years international oil and gas experience. Mr King began his career with the Australian government and the Esso Australia as Area Legal Counsel based in Sale, Victoria, responsible for the Bass Strait development legal group. Mr King then served Ampolex as General Counsel and a member of the executive Committee where he was intimately involved in the rapid expansion of Ampolex from a small explorer to a mid-cap producer.

Mr King operates his own specialist energy law firm and advises private international clients and is retained by the PNG Government to advise on large-scale oil and gas mining development projects.

Directorships of listed companies now and in the last three years include Director, Vermillion Oil and Gas Australia Pty Ltd, Director of Singapore Petroleum Company for 9 years, and Director of Cue Energy Resources Ltd (ASX: CUE) until 2016.

Mr A. Wooles, B.Com, Dip App Finance, MBA (Wharton), MAICD, A Fin.
Non-Executive Director

Mr Wooles is a highly qualified and successful professional who has held executive and advisory roles with leading private and public companies. He also has extensive knowledge of financial and capital markets. In his advisory capacity Mr Wooles has worked closely with companies including BHP Minerals, Coles Myer, Telstra, Coca-Cola Amatil, FAL and Western Power.

His professional qualifications include: Bachelor of Commerce (Economics) from Deakin University, a Graduate Diploma of Securities Analysis from the Securities Institute of Australia, and an MBA (Finance) from the Wharton School of the University of Pennsylvania. He brings significant experience and knowledge in both the corporate finance and energy sectors.

Directorships of listed companies now and in the last three years include Director of Imdex Ltd (ASX: IMD) from 1 July 2016.

Mr Jarrod White, B. Bus, CA, CTA
Chief Financial Officer and Company Secretary

Mr White was appointed as Chief Financial Officer and Company secretary on 1 May 2014. He has a continued involvement with High Peak Royalties asset portfolio since its incorporation in 2008 and has been the appointed Corporate Advisor to the wholly owned Phoenix Oil and Gas Ltd since this time (and was appointed CFO from 2010)

Mr White is a chartered accountant and Director of Traverse Accountants Pty Ltd, a Corporate Advisory and Chartered Accounting firm. In conjunction with his corporate advisory roles at Traverse, Mr White has been appointed Company Secretary and Chief Financial Officer of several listed entities that operate on the Australian Stock Exchange and London Stock Exchange and has a sound knowledge of corporate governance and compliance.

Mr White has also been advisor to a wide range of capital raisings, IUPO's and reverse take-over transactions and has a focus working with growing companies in the exploration and technology space.

Mr White is not a director of any other listed entity.



Appendix A: More About Royalty Streams.

There are Three Broad Types of Royalty

These are (1) Gross Over-Riding Royalty or GOR, (2) Net Overriding Royalty or ORI, and (3) Net Profit Interest or NPI.

- A GOR is the most valuable form of royalty as it's calculated as a percentage of the gross revenue ex-field. HPR's royalty at Longtom / VicP54 is an example.
- An ORI is derived from field revenue, less operating costs incurred by the field owner to create a sale-able gas or oil product. These will vary from field to field and be a function of the amount of work required to "clean up" raw field output for delivery to a point of sale. The majority of HPR's royalty structures are of this nature. Because of the deduction of field-specific processing costs, ORI's are less valuable than a GOR.
- An NPI royalty is calculated based on field profit, not revenue. It is the least valuable of the various royalty streams as it's derived after the deduction of operating costs and recovery of capital costs from revenue. HPR's royalty interests over various Santos operated field in western Qld are NPI's.

Strengths & Weaknesses in Royalty Model

Minerals & energy royalty companies are rare in Australia but are common in North America, where some have grown into multi-billion dollar enterprises. Key strengths appealing to investors are:

1. The royalty stream provides an undiluted, direct linkage to movements in the underlying commodity.
2. Revenue royalties capture volume trends and so the royalty owner benefits from the investment made by the field owner into maintaining or growing production, and many field owners are "production driven" and seek to replace reserves and production.
3. Royalty over non-producing acreage is a zero cost option on future exploration and development success. The royalty owner is not required to fund risky exploration or subsequent development, and does not incur any field operating costs.
4. Royalties can be very long life, governed by the life of field. For example, the Weeks royalties over Bass Strait production has been generating income for >45 years and could continue for another 25-30 years.

There are some weaknesses too.

1. The royalty owner cannot influence the pace of exploration or development, and is dependent on third party developers to generate production.
2. Revenues are commodity price and volume driven, and royalty owner has no control over either.



Analyst Verification

I, **Stephen Bartrop**, as the Research Manager, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Research Pty Ltd (AFSL 503622) and its associates, or consultants may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of **High Peak Royalties Limited** and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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