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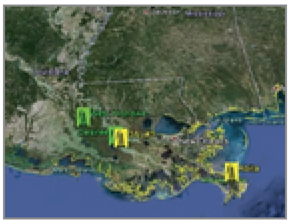
Grand Gulf Energy

20th August 2014

Grand Gulf Energy to earn $3.5M profit as oil output soars

Wednesday, August 20, 2014

Grand Gulf Energy to earn $3.5M profit as oil output soars



Net profit for 2013/2014 is expected to be circa $3.5 million before tax. The Company has not raised any equity over the last 3 years and has nil debt. Drilling and development of up to 3 wells will proceed over the coming 12 months without a need for a fresh capital raising. Has Grand Gulf Energy slipped under investor radars?

Grand Gulf Energy Ltd (ASX:GGE) is reporting impressive gains from its U.S. based oil and gas operations.

This includes a 99.3% increase in annual production to 62,377 barrels of oil, along with 108.734 Mcf of gas and boosted annual revenues for 2013/2014 by 115% to $7.5 million.

The Company has already announced that net profit for 2013/2014 is expected to be around $3.5 million before tax, impairment and amortisation is taken into account.

Working capital has increased to $3 million without incurring debt or raising capital.

This with existing cash flow will allow drilling and development of up to 3 wells to proceed over the coming 12 months without a call for a fresh capital raise.

The Company has not raised any equity over the last 3 years and has nil debt.

Grand Gulf Energy is currently producing ~188 barrels of oil equivalent per day and generating around US$385,000 in monthly revenue (net of operating costs) that will be deployed into drilling programmes. This includes the drilling of the Templet #1 well at the Louise Prospect on the Napoleonville Salt Dome in Louisiana.

Templet #1 is a low risk play that has potential to produce around 400 barrels of oil per day, and potentially net Grand Gulf Energy around 86 barrels per day of additional oil production.

Templet #1 is aiming to increase total net recoverable oil reserves to the Company to 466,000 – 516,000 barrels of oil from its Louisiana assets.

Success at Templet #1 and commencement of production at West Klondike (imminent) could see monthly revenues increase by up to 50% to US$600,000 per month, and boost net operational cashflow to A$7.8 million.

The Company employs a highly skilled technical team based in Houston that is maturing an additional 3 high value prospects at the Napoleonville Salt Dome. These targets will be drilled over the next 12 months.

Proactive Investors forecast a 6-9 month price target of $0.035 per share based on success at Templet #1 (see Analysis and Valuation). Further success at the Napoleonville Salt Dome will add additional upside to the Grand Gulf Energy share price in 2015.

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Grand Gulf Energy

ASX Code: GGE
Recommendation: Speculative Buy
Sector: Energy

Share Price: $0.010
52 Week -: High: $0.016/Low: $0.003
Issued Ordinary Shares: 748.0M
Options: NIL
Net Working Capital: $3M

Market Cap: A$7.5M
Enterprise Value: $3.5M

BACKGROUND – UNITED STATES OIL AND GAS INTERESTS

Grand Gulf Energy Ltd (**ASX:GGE**) is an ASX listed energy development company that is focused on oil and gas assets located in state of Louisiana, United States. Louisiana is a Gulf State that sits at the epicenter of the U.S. oil and gas industry that provides multiple opportunities for operators to fast track oil and gas production at lower cost via stablished infrastructure pathways.

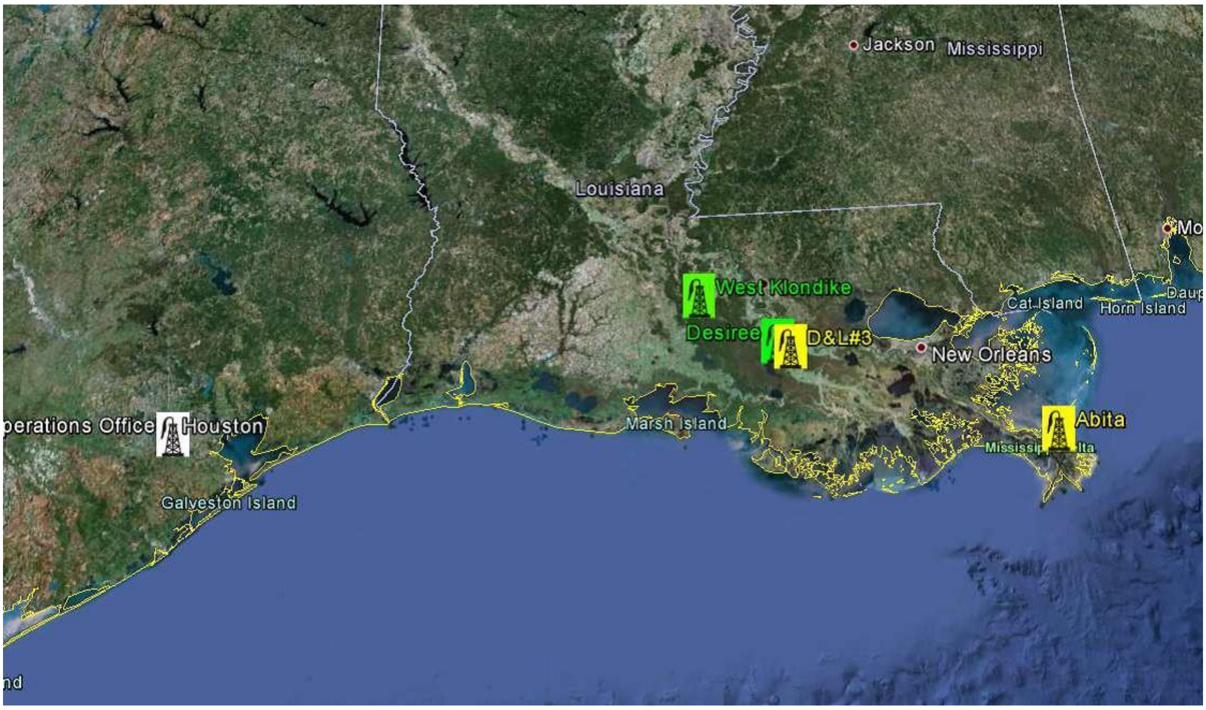
Grand Gulf Energy maintains a strong board and management team based in Perth, Western Australian and Houston, Texas, USA.

Charles Morgan who serves as Executive Chairman owns 20.2% of the Company and oversees a Company that is profitable, and maintains a low management spend. He founded Hercules Energy, **Wildhorse Energy**, Matra, **Elixir Petroleum**, Golden Triangle, **Nido Petroleum**, West Oil and Fusion Oil & Gas.

Largest shareholder is Craig Ian Burton with a 22.4% interest who is a solicitor and principal of Verona Capital of Perth. Craig founded **Panoramic Resources**, **Albidon**, **Energy Ventures** and **Mirabela Nickel**, and serves on the board of a number of ASX listed entities.

The Company has made 5 discoveries since 2011, and currently operates 4 wells that produce 188 barrel of oil equivalents per day that is made up of 97% oil and 3% natural gas net to the Company. The 5th discovery known as La Posada was sold for $7.5 million in 2011/2012.

LOUISIANA OIL AND GAS ASSETS



MAP ONE: OIL AND GAS ASSETS IN LOUISIANA AND PROXIMITY OF OPERATIONS OFFICE IN HOUSTON

Oil and gas assets owned by **Grand Gulf Energy** that are currently in production include:

NAPOLEONVILLE DOME, DESIREE PROJECT, ASSUMPTION PARISH, LOUISIANA

The Company maintains a 35.6% non-operator interest at Desiree.

The Hensarling #1 well commenced production on 3rd of July 2013, and is producing at around 400 barrels of oil per day, and has been placed on a jet pump to maintain production. Post drill Gross Prospect Reserves are estimated at 952,000 barrels of oil in the Cris R II, and Cris R III formations.

Production is sourced from the thicker Cris R III formation and is generating revenues of US$265,000 – US$295,000 per month (after royalties and operative costs), or US$3.2 million to US$3.54 million per year.

Production will continue through a 25/64 inch choke until depletion takes place, or water production becomes excessive, and will then switch to the thinner Cris R II formation.

NAPOLEONVILLE DOME, DUGAS & LEBLANC PROJECT, ASSUMPTION PARISH, LOUISIANA

The Company maintains a 40% non-operator working interest at Dugas & Leblanc.

The Dugas and Leblanc #3 well was placed on a jet pump in December of 2013 and produces 85 barrels of oil per day, and 332 barrels of water per day from a 21/64 inch choke. The well is currently delivering US$75,000 per month to **Grand Gulf Energy** after deduction of royalties and operating costs. The Company is presently working on a water disposal well which will lower production costs net to the Company by ~US$10,000 per month.

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Gross Proven behind Pipe reserves as at 31st December 2013 were estimated at 63,000 barrels of oil, and 178.8 MMcf / 178,800,000 cubic feet of gas. The prospect has potential for a further 10-15 MMcf / 10-15 billion cubic feet of gas updip of the Dugas & Leblanc #3 well.

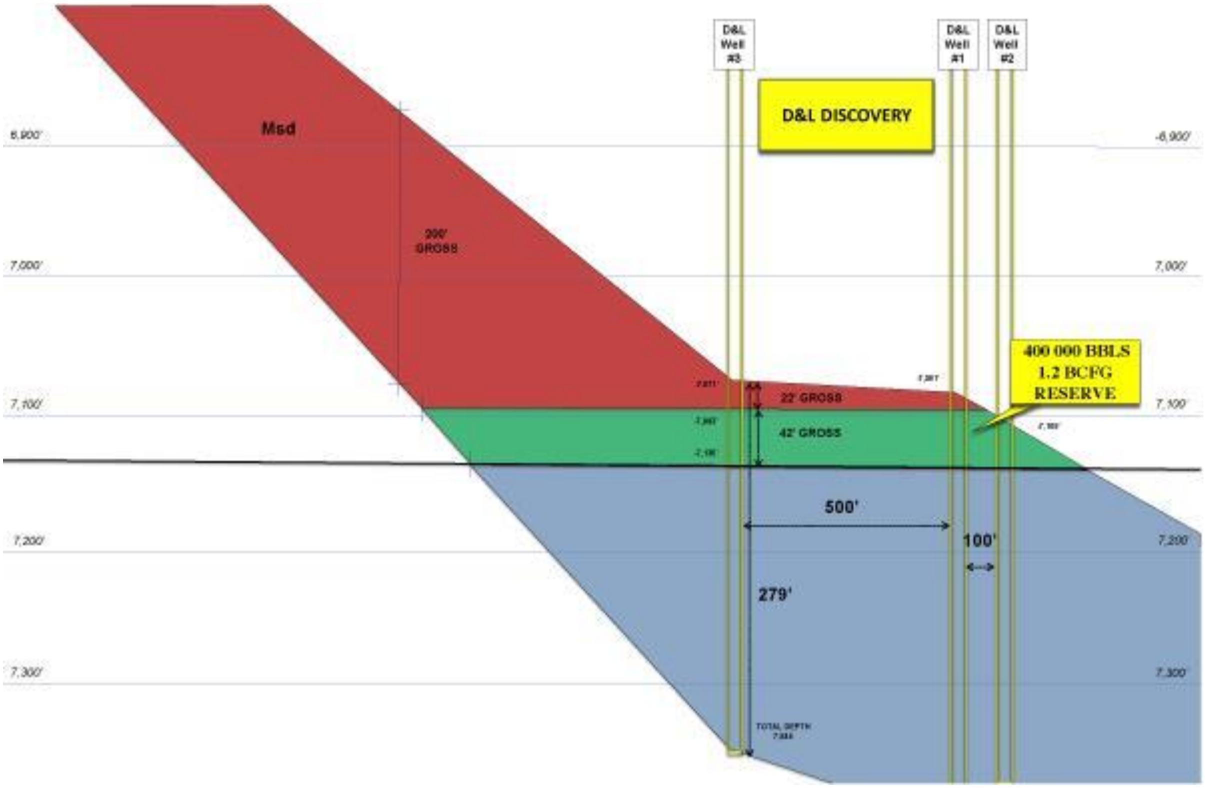


DIAGRAM ONE: DUGAS & LEBLANC #3 WELL ILLUSTRATING OIL (GREEN) AND GAS (RED) POTENTIAL

ABITA PROJECT, PLAQUEMINES PARISH, LOUISIANA

The Company owns a 20% non-operator working interest that reduces to 15% after payout.

The field is operated by Clayton Williams and placed the Abita well into production on the 18th of March 2012. Abita has been recompleted in the upper 18 sands, and is presently producing ~1 mmcfd of gas and 10 barrels of oil per day through a 7/64 inch choke.

The upper 18 sands are likely to contain 400 MMcf / 400,000,000 cubic feet of gas and 8,000 barrels of oil. At 31st December 2013 the Proved Developed behind Pipe Reserves for Abita were estimated at 2.397 MMcf / 2,397,000,000 cubic feet of gas.

WEST KLONDIKE PROJECT, IBERVILLE PARISH, LOUISIANA

The Company maintains an 11.71% non-operator working interest at West Klondike, with a 1.2% of that interest reverting to the original owner following a 400% recovery of the associated incremental cost incurred for development of the Wilbert Sons LLC #1 well.

Production from the Wilbert Sons LLC #1 well is expected to commence in September 2014 after test flowing at rates above 2 MMcfpd / 2,000,000 cubic feet per day of gas with some associated condensate from the lower Nod Blan formation.

Electric logs indicate the presence of hydrocarbons in 3 reservoir horizons. These include the Lario sand with 4 feet of net pay but with 18 – 20% tight porosity, upper Nod Blan sand with 6 feet of net pay of gas and condensate with good porosity, and the lower Nod Blan sand with 35 feet of net pay of oil and gas with good porosity.

CURRENT OIL AND GAS PRODUCTION PROFILE – NET TO Grand Gulf Energy

- Desiree Prospect 142 barrels of oil equivalent per day for ~US$290,000 per month

- Dugas & Leblanc Prospect 34 barrels of oil equivalent per day for ~US$75,000 per month

- Abita Prospect 12 barrels of oil equivalent per day, production and revenue to be advised

- West Klondike undergoing completion, production and revenue to be advised

Total net production for June quarter of 2014 was 15,392 barrels of oil and 27.574 MMcf / 27,574,000 cubic feet of gas for gross revenue of A$2 million. Abita and West Klondike will add oil and gas revenues of ~US$35,000 per month for a monthly net operating cash flow of ~US$400,000 going forward from all four wells. Daily production is currently running at ~188 barrels of oil equivalent per day.

CURRENT OIL AND GAS RESERVES - NET TO Grand Gulf Energy

- Desiree Prospect – Hensarling #1 well 296,000 barrels of oil

- Dugas & Leblanc Prospect – Douglas and Leblanc #3 well 30,000 barrels of oil and 100 MMCF / 100,000,000 cubic feet of gas

- Abita Prospect – Abita well 10,000 barrels of oil and 560 MMCF / 560,000,000 cubic feet of gas

- West Klondike Prospect – Wilbert Sons LLC #1 well resources to be advised

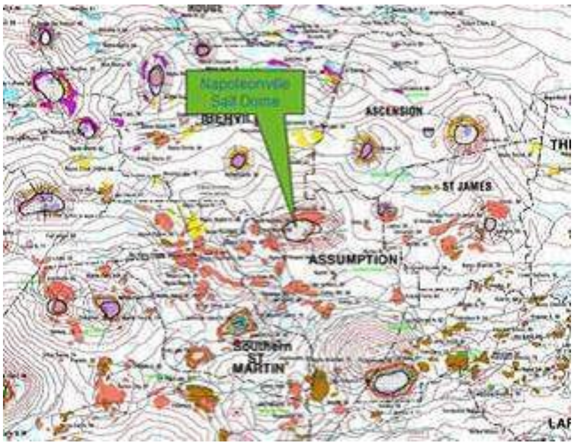
Total net recoverable oil resources are 336,000 barrels of oil and 660 MCF / 660,000,000 cubic feet of gas.

EXPLORATION ASSETS – NEAR TERM DEVELOPMENT AND PRODUCTION OPPORTUNITIES

NAPOLEONVILLE SALT DOME - LOUISE PROSPECT, ASSUMPTION PARISH, LOUISIANA – TEMPLET #1 WELL

The Company has secured a 22.57% non-operator interest and is paying 19.26% of the dry well costs to drill Templet #1. The Energy Drilling rig spudded the well on 10 August 2014 and is presently drilling ahead for a 45 day well.

MAP TWO: NAPOLEONVILLE SALT DOME



MAP THREE: MORE DETAILED VIEW OF SETTING FOR THE NAPOLEONVILLE SALT DOME

The location for Templet #1 was matured by using proprietary data developed by the Company's in-house Geological and Geophysical team. Templet #1 follows in the same style as the Desiree Project / Hensarling #1 well (also generated inhouse) that is currently producing around 400 barrels of oil per day, and is located immediately to the south of that discovery.

The well is expected to penetrate an accumulation of oil in a 3D defined, normally pressured block that is updip from an equivalent sized prospect that was drilled earlier by another entity and produced a total of 2.2 million barrels of oil and 10.5 billion cubic feet of gas.

Templet #1 is considered to be a low risk play in terms of drilling operations and geological and geophysical perspective. The conceptual target is estimated to contain 600,000 to 800,000 barrels of oil and may net **Grand Gulf Energy** around 86 barrels of oil per day or ~US$200,000 per month in free cash flow.

The Company has secured the services of Scott Sechrist who is an experienced Gulf Coast geophysicist. Reprocessing of 3D seismic data is underway and is expected to mature up to 3 further drilling targets around the Napoleonville Salt Dome over the next 12 months.

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The Salt Dome represents an excellent risk to reward proposition that is backed up by high quality seismic and an experienced Geology and Geophysics team.

REVENUE GROWTH AND PROFITABILITY ACCELERATES SHARPLY OVER 2013/2014

Grand Gulf Energy is reporting a sharp acceleration in oil and gas production, along with revenue growth and profitability. This is evident from data generated over the last three financial years:

- 2011/2012 financial year produced 29,635 barrels of oil and 191.609 Mcf of gas for annualised revenue of $3.73 million and profit of $3.65 million (including sale of La Posada for $5.64 million)

- 2012/2013 financial year produced 31,324 barrels of oil and 97.734 Mcf of gas for annualised revenue of $3.49 million, and loss of $2.18 million

- 2013/2014 financial year produced 62,377 barrels of oil and 108.289 Mcf of gas for annualised revenue of $7.5 million and a profit before tax, amortisation and depletion of $3.5 million

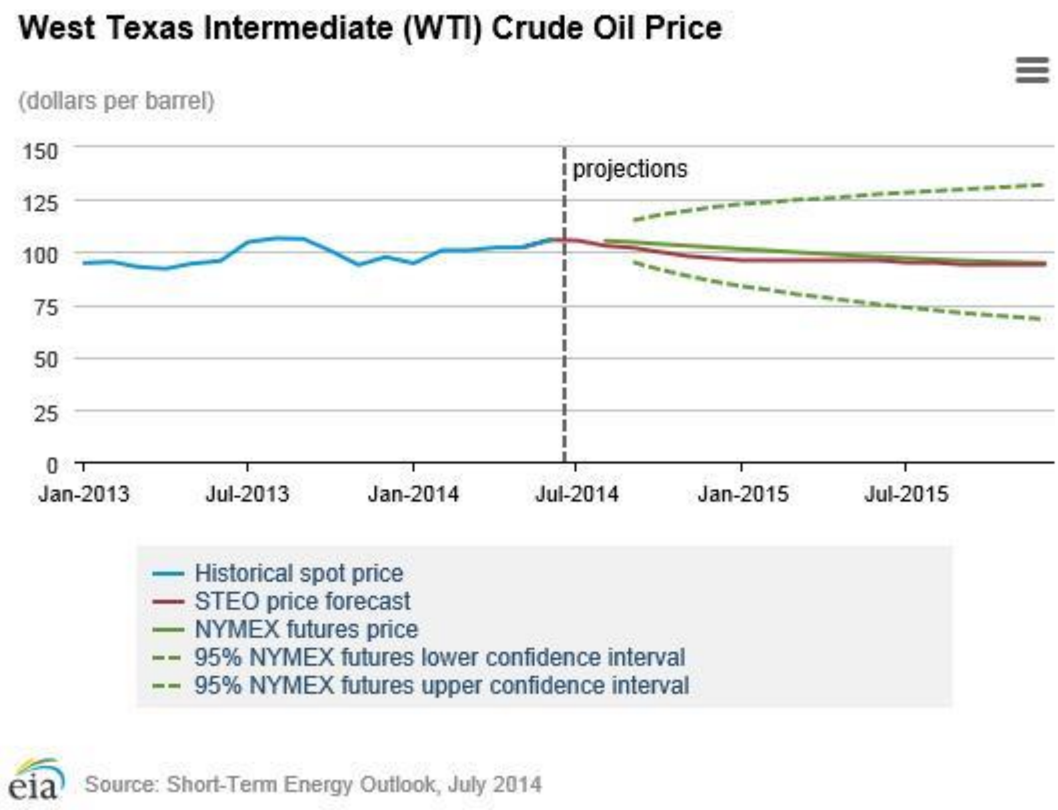
- Oil production over the 2012/13 and 2013/14 financial years increased by 99.3%

- Gas production over the 2012/13 and 2013/14 financial years increased by 10.6%

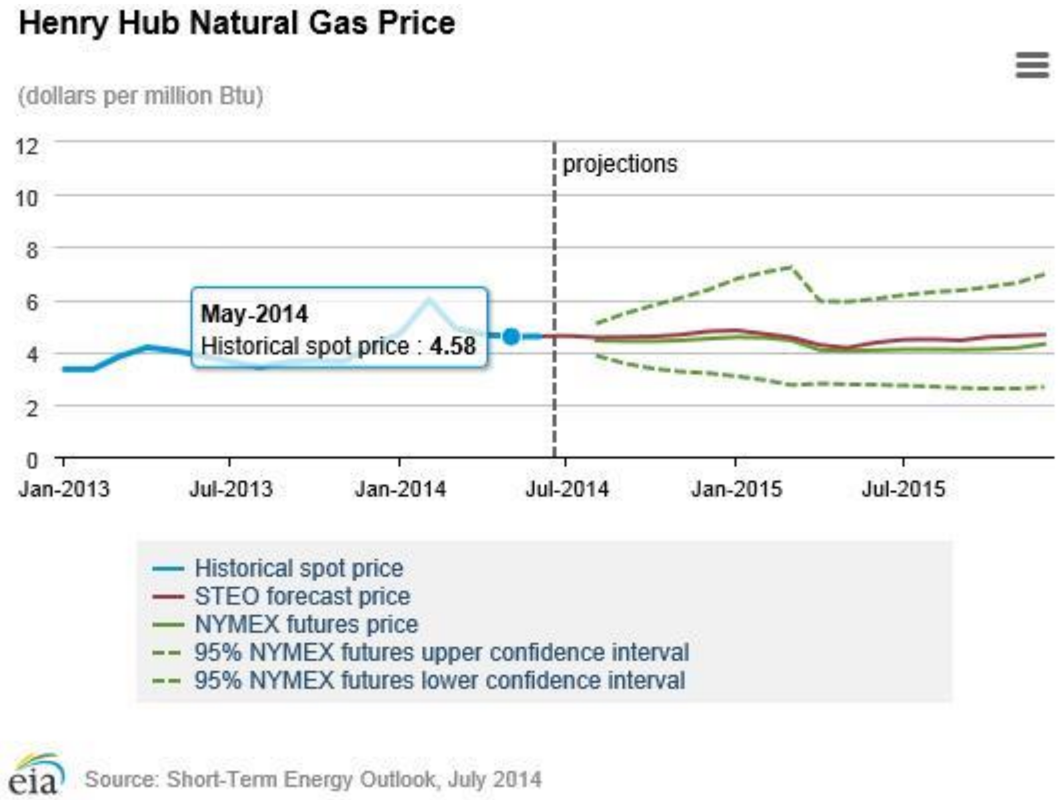
- Revenue over the 2012/13 and 2013/14 financial years increased by 100%

- Cash over the 2012/13 and 2013/14 financial years increased from $1.0 million to $1.8 million for an increase of 80% and has net working capital of $3 million

U.S. OIL AND GAS MARKET



GRAPH ONE: U.S. ENERGY INFORMATION ADMINISTRATION SHORT TERM OIL PROJECTIONS THROUGH 2015



GRAPH TWO: U.S. ENERGY INFORMATION ADMINISTRATION SHORT TERM NATURAL GAS PROJECTIONS THROUGH 2015

The STEO (EIA short term forecast) is indicating buoyant pricing for both West Texas Intermediate crude and for Henry Hub gas pricing which will underpin growth plans for **Grand Gulf Energy**. **Grand Gulf Energy** price is determined by a premium to WTI and closely aligns with Brent Prices.

CATALYSTS FOR NEAR VALUATION GROWTH – NEXT 12 MONTHS

- Drilling of Louise Prospect / Templet #1 well to commence in August of 2014

- Commencement of production from West Klondike in September of 2014

- Abita well recompletion has recently been carried out with the well producing at a sustained 1mmcfd and 8 bbls of condensate per day

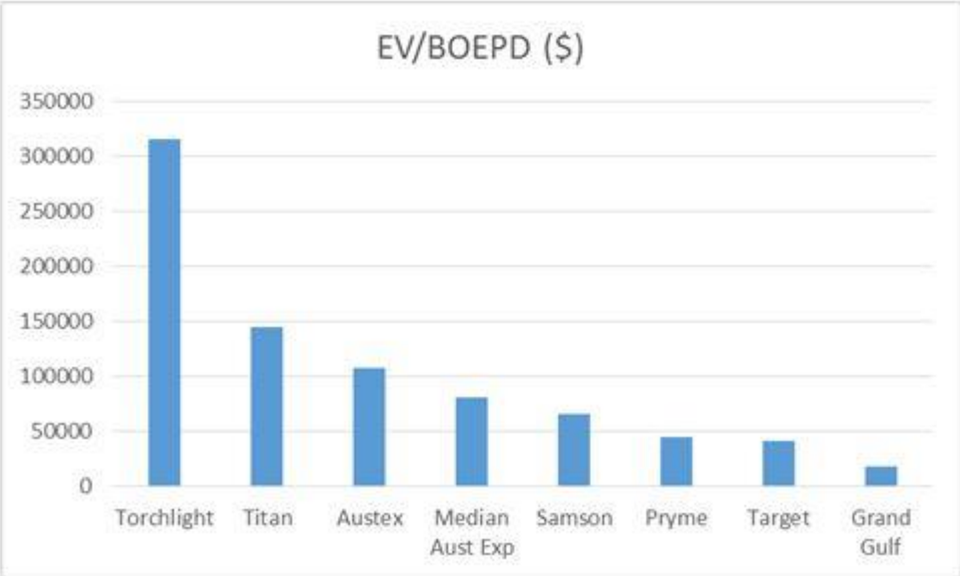
- Free cash flow is forecast to increase from US$400,000 to $600,000 per month if Templet #1 is successful with commencement of production in December quarter of 2014. This equates to an annualised free cash flow of $7.2 million and underwrites Napoleonville drilling programme

- Generation and drilling of 3 wells on the Napoleonville Salt Dome over the next 12 months

Grand Gulf Energy

ANALYSIS & VALUATION

Grand Gulf Energy Ltd is currently capitalised at $7.5 million, has net working capital of $3 million and carries an Enterprise Valuation "EV" of $3.5 million. This EV implies a production value of only $18,617 per BOEPD for predominately oil producing assets.



A relevant peer group comparison can be made via EV / current daily production of ASX listed entities that are developing and producing oil and gas solely within the United States and include:

- Titan Energy Ltd (ASX:TTE) is producing 31 BOEPD and carries an EV of $4.5 million for an EV/ daily production value of $145,161.30 per BOEPD

- Pryme Energy (ASX:PYM) is producing 67 BOEPD and carries an EV of $3.0 million for an EV/daily production value of $44,776.12 per BOEPD

- Target Energy (ASX:TEX) is producing 334 BOEPD and carries an EV of $13.8 million for an EV/daily production value of $41,317.37 per BOEPD

- Samson Oil & Gas (ASX:SSN) is producing 595 BOEPD and carries an EV of $38.9 million for an EV/ daily production value of $65,378 per BOEPD

- Austex Oil (ASX: AOK) is producing 1,273 BOEPD and carries an EV of $139 million for an EV/daily production value of $109,190.89 per BOEPD

U.S. peer group comparisons for EV/ daily production carry much richer valuations that include Torchlight Energy Resources (NASDAQ: TRCH) which carries an EV of US$75 million and produces 250 BOEPD for an EV/daily production value of A$315,000 per BOEPD.

The median EV/ daily production valuation for our peer group of Australian explorer developers is at $81,164.74 per BOEPD.

Proactive Investors assigns this median valuation to Grand Gulf Energy which is currently producing 188 BOEPD for a projected valuation of $15.3 million or $0.023 per share (including cash).

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Success at Templet #1 could boost daily output to ~300 BOEPD and potentially boosts our 6-9 month valuation target to $26.2 million or $0.035 per share (including cash).

On a net earnings basis, **Grand Gulf Energy** can also be valued on an EPS basis. On this metric, the company is as equally under-valued by a factor of three at current share price.

The Company has not raised any equity over the last three years and has nil debt. Has **Grand Gulf Energy** slipped under investor radars?

Our contention is a very big yes.

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