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Announcement to ASX

17 January 2017

SACGASCO SECURES FARM-IN PARTNER FOR DRILLING OF WORLD-CLASS DEMPSEY CONVENTIONAL GAS PROSPECT, ONSHORE CALIFORNIA

- **Farm-out of 10% interest on 2 for 1 promoted basis with farm-out option of further 10% on promoted basis**
- **Dempsey-1 scheduled for drilling in April-May 2017, targeting 1 Tcf conventional reservoir gas underneath a producing field**
- **Farm-out agreement to provide funding for up to one-third of Dempsey well costs**
- **Discussions with additional potential farm-in partners and project funders for Dempsey are ongoing**
- **Dempsey will be first well to test the under-evaluated Early Cretaceous gas system in the proven Sacramento Basin using 3D seismic**
- **Existing critical infrastructure to be utilized to fast track development of gas reservoirs proved up during Dempsey drilling**
- **Commercial potential of Dempsey Project further enhanced by rising clean Natural Gas prices in California**
- **Acquisition of new leases and producing assets in Sacramento Basin well advanced**

Sacramento Basin-focused conventional gas developer and producer Sacgasco Limited (ASX: SGC) (“Sacgasco” or “the Company”) advises that it has signed a farm-out agreement (“farm-out”) with Bombora Natural Energy Pty Ltd (“BNE”) for its large, conventional Dempsey Gas Prospect located in the Sacramento Basin, onshore California.

Following this key milestone, the Company plans to undertake a 3,200 metre (~10,500 feet) combined appraisal and exploration well in April-May 2017.

BNE will earn an initial 10% working interest by funding 20% of the Dempsey-1 well program to a gross well cost cap (the “Cost Cap”) of approximately A\$5.2 million (US\$3.8 million). BNE will also have the right, exercisable by notice to Sacgasco by 25 January 2017, to earn an additional 10% working interest by funding a further 12.5% of the drill program to the Cost Cap. All expenditure by BNE on the Dempsey well program in excess of the Cost Cap would be at its pro rata earned working interest.

The farm-in by BNE is subject to BNE achieving comfort on an ASX listing pathway in relation to which it is at an advanced stage.

Dempsey Conventional Gas Prospect Background

The Dempsey Prospect is a large, 3-way dip, fault bound closure with conventional sandstone reservoir targets mapped at multiple (seven) stacked levels. The Dempsey structure sits beneath a developed gas field from which Sacgasco currently produces. The gas plant has available capacity that would be utilised for a fast track development of any gas reservoirs proved up by the Dempsey 1 well.

Sacgasco maps seven target gas reservoir levels beginning with two small (1-3 Bcf unrisks Best Estimate Deterministic recoverable Prospective Resource) seismic amplitude defined, extension of the shallow producing Forbes Sandstone reservoir system. The targets then extend down to total depth through a series of interpreted more broadly distributed older Cretaceous reservoirs.

Individual, unrisks Deterministic Prospective Resources for these primary targets range from 116 bcf to 352 Bcf of recoverable gas. Should all the stacked reservoirs be full of gas, the cumulative unrisks recoverable Prospective Resources within the prospect could approximate 1 Tcf.

These estimates are consistent with those released via the ASX platform on 4 September 2014 and these estimates of prospective petroleum resources must be read in conjunction with the cautionary statement that follows:

“The estimated quantities of petroleum that may potentially be recovered by the application of a future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially movable hydrocarbons.”

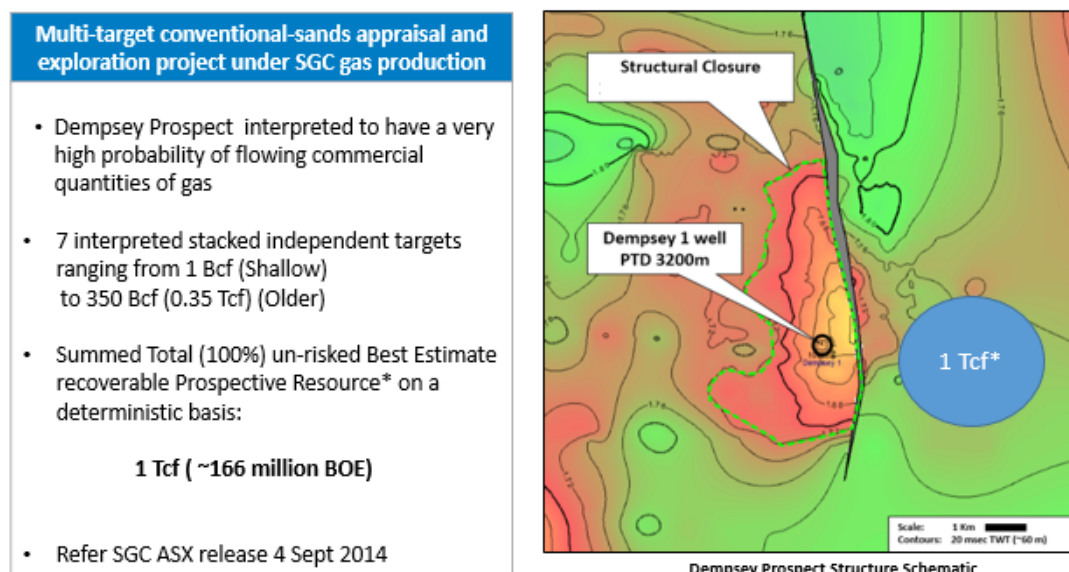


Fig 1: Sacgasco's Multi-reservoir Dempsey Conventional Gas Prospect

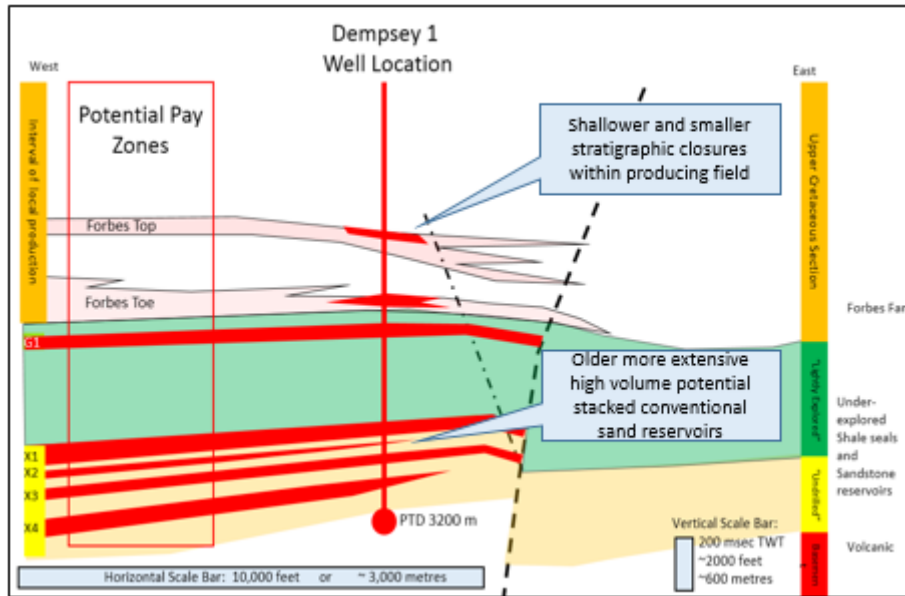


Fig 2: Cross-Section through Sacgasco’s Multi-reservoir Conventional Gas Prospect

California Natural Gas Market Dynamics

The strong recovery of California gas prices to over US\$3.60 per mcf, in one of the lower operating cost environments in the world, along with positive forecasts from a number of key commentators and analysts underpins an optimistic outlook for economic sales of clean, natural gas in California.

California, one of the Top 10 economies in the world, consumes enormous quantities of gas, equivalent to around 2.25 times the entire output of Australia’s NW Shelf LNG plants, but California only produces 10% of this consumed gas. The rest is imported from elsewhere in the USA and Canada. Hence the premium market for natural gas compared with most of the USA.

Access to extensive gas pipelines and production equipment increases the commercial potential of the Sacramento Basin gas play.

Working Interests:

Upon settlement of the recently approved Peregrine acquisition Sacgasco’s working interest will be 90%.

Post the Farm-in and exercise of the option*, the working Interests in the Dempsey Gas Project would be:

Sacgasco Limited (ASX: SGC) (Operator)	80% to 70%*
Bombora Natural Energy Pty Ltd (BNE)	10% to 20%*
Xstate Resources Limited (ASX: XST)	10%

Sacgasco will provide further announcements on the progress of any further farm-out and planning for the drill program as relevant milestones are reached.

Sacgasco's Managing Director Gary Jeffery commented:

"This is an important transaction for Sacgasco, as it enables the Company to accelerate the drilling of our world-class Dempsey Gas Prospect in the first half of 2017.

We are pleased to secure funding on a promoted basis for a significant part of the Dempsey well, allowing Sacgasco to conclude permitting activities and commit to the securing of long lead items for the drilling of the Dempsey well in the near-term.

The farmout follows Sacgasco's recent securing of majority Working Interest and Operatorship of both the Dempsey and Alvares Prospect. The Board is advancing discussions with additional parties interested in further funding part of the Dempsey well.

As well as progressing the Dempsey Prospect, Sacgasco is actively strengthening its asset base with the acquisition of new leases and producing natural gas wells being considered.

We expect to be in a position to update shareholders on these additional compelling opportunities very shortly."

John Begg, Executive Chairman of BNE added:

"Dempsey fits neatly with BNE's strategy of pursuing overlooked gas plays near active gas markets and related infrastructure.

We have been pursuing entry to Dempsey for some time and are excited by both the gas resource metrics and the potential to fast track development. BNE is effectively buying into, via the drill bit, an under-capacity gas production facility sitting above a robust structure with multiple gas reservoir targets that has been defined by 3D seismic.

It seems incredible that despite all the historic evidence of a deeper gas system in the gas prolific Sacramento Basin, only some 16 wells have been drilled to the levels SGC and BNE are targeting. Further, that the Dempsey -1 will be the first such well to be drilled guided by 3D seismic."

For and on behalf of the Board of Sacgasco Limited.

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About Sacgasco Limited (ASX. SGC)

Sacgasco Limited (ASX: SGC) is an Australian-based energy company focused on conventional gas exploration in the Sacramento Basin, onshore California. SGC has an extensive portfolio of gas prospects at both exploration and appraisal stages, including multi-Tcf opportunities. The Company is targeting gas supply to the local Californian gas market and burgeoning LNG market in North America. SGC is of the view that the size of the prospects in California have the potential to supply both the domestic Californian gas market and export LNG markets.

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About Bombora Natural Energy Pty Ltd

BNE is a private company focused on acquiring assets in high potential, natural gas prone areas in the Australia-Pacific region. It has already executed a farm-in to earn 70% and operatorship of the Walyering Gas Field in the onshore Perth Basin. The Company was founded during 2016 by John Begg with the support of Hartleys Limited in Perth and is advanced in securing a corporate pathway to a listing on ASX. John is a highly successful explorer who has been influential in the discovery and development of numerous oil and gas fields in Australia, Southeast Asia and California. His previous experience as an operator and developer of a 1,000+ bopd oil field in California means that he and the BNE team understand fully the risks and rewards of the oil and gas sector in the state.