



Sacgasco Limited

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Announcement to ASX

31 January 2018

December 2017 Quarterly Activity Report

- **Dempsey:**
 - Initial testing of the Company's Dempsey 1-15 well in the Sacramento Basin, California was successfully carried out.
 - The well intersected stacked porous gas filled reservoir zones and the lowermost two zones were tested.
 - At the Dempsey well, testing of older sedimentary intervals resulted in a continuous flow of clean, sweet and dry natural gas for the first time from these sediments in the Sacramento Basin.
 - Multiple gas saturated reservoir zones remain to be tested.
 - The Dempsey well has been connected to the sales gas system for an extended production test.
 - Planning and permitting for reservoir stimulation to enhance gas flow rates in the Dempsey well progressing to plan with a view to conducting the stimulation in the first quarter of calendar 2018.
- **Alvares:**
 - Preparing for de-risked re-entry of by-passed gas discovery made while drilling for oil in 1982.
- **Production:**
 - Field activities continuing to increase operated natural gas production.
 - Sacgasco's 27 well portfolio with 9 currently in production provides multiple opportunities to bring additional wells back into production.
- **Expansion of Prospects Portfolio**
 - Leases continue to be acquired over prospects for follow up to success at Dempsey 1-15 well.

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Sacramento Basin-focused natural gas developer and producer Sargasco Limited (ASX: SGC) (“Sargasco” or “the Company”) is pleased to provide its Quarterly Activities Report for the period ended 31 December 2017.

In and following the December quarter, Sargasco achieved operational milestones, strengthening the Company's position as one of the leading Natural Gas operators in California's world-class Sacramento Basin.

Sargasco is leading the way in the evaluation of the under-explored older sediments of the Northern Sacramento Basin. The sediments of interest are a series of Cretaceous sandstones that have been the hosts for high gas shows while drilling, and they exhibit positive petrophysical log characteristics.

Dempsey Natural Gas Project- Appraisal stage (SGC 50% WI)

The Dempsey 1-15 well was safely drilled and cased to its prognosed target. A workover rig and high pressure rated equipment was mobilised to complete and test the well.



Dempsey Completion Rig featuring 10,000 psi BOP

The two intervals tested to date are in Cretaceous sediments beneath the known producing sandstones in the basin and at Dempsey.

The zones have been sequentially tested from the bottom of the well up to gather the most information from this important well in a functional way, rather than prioritising the best zones first. The zones tested span some 700 feet (~15%) of some 4,000 feet of interest in the Dempsey 1-15 wellbore.

Zone 1 Test	Thin gas show on mud logs and poor reservoir from petrophysical logs.	Flowed clean, sweet, dry natural gas with no associated water, at sub-commercial rate; similar energy content to Zone 2 gas, which is slightly better than overlying field level gas.
Zone 2 Test	Thicker gas show and better reservoirs on logs.	Flowed water free, clean, sweet dry natural gas (997 Btu / scf) at a stabilised rate of ~140 mcf/gpd at ~150 psi flowing tubing pressure; shut-in tubing pressure in excess of 6000 psi.

The gas saturated zones tested in the well are interpreted in the well bore area to be a combination of relatively thin permeable sandstones, shales, and possibly fractures filled with highly-pressured, clean dry natural gas and no water. The permeable zones may be connected to thicker gas saturated zones in and away from the well bore. Effective access to such gas reservoirs is not possible with normal spatially oriented horizontal perforations at the rate of 6 shots per foot.

Sacgasco as Operator recommended that the rocks around the Zone 2 test be stimulated prior to any further testing of shallower gas saturated intervals. Stimulation is designed to increase the permeability for natural gas to flow by creating interconnecting fractures up and down to connect a much greater volume of permeable and porous gas-filled reservoirs in the proximity of the horizontal perforations.

Stimulation is being done in expectation of a very significant improvement in flow. Flow results will also determine if other shallower saturated gas reservoir zones will need to be tested to add to production at the time.

Sacgasco has previously announced that it interpreted that there was sufficient recoverable gas from field level reservoirs to pay out (at current gas prices in the area) the cost of the Dempsey 1-15 well.

While the well stimulation process is being planned and permitted the Dempsey well was connected to the sales pipeline to gather additional reservoir information.



Dempsey 1-15 well Location and Sales Point

MANAGEMENT COMMENTARY

Sacgasco's Managing Director Gary Jeffery commented:

"Dempsey is a very significant natural gas discovery that is being watched by the natural gas industry in the Sacramento Basin. There is increased competition for the prospective areas in the Basin and consequently Sacgasco believes that it is prudent to protect some of its detailed exploration findings as it gives the company a significant competitive advantage when evaluating and leasing new areas. The evaluation and learning process for the company is continuous and exponentially material due to the under-explored nature of the Basin.

The extensive, natural gas saturated sediments on the Dempsey structure along with reported subsequent drilling results on the Alvares trend to the west of Dempsey are very encouraging for the potential of the underexplored parts of the Sacramento Basin.

Sacgasco is leading the way in evaluating the potential of these strata. The Company is also building on its potential to grow shareholder value through ongoing work to improve production from the existing and other field assets.

Sacgasco's strategy combines acquisition of physical assets, enhanced use of those assets along with their use as facilitation tools for monetizing the portfolio of exponential growth opportunities inherent in the company's leases, databases, people and interpretations."

Alvares Natural Gas Project – Appraisal stage (SGC 39% WI)

The Alvares natural gas project is located close to large natural gas pipelines and on trend 35 miles from the similarly structured, and recently drilled Tulainyo Project

Sacgasco's Alvares project contains a total (100%) recoverable unrisks prospective gas resource on a best estimate deterministic basis of approximately 2.4 Tcf (400 million boe).

Planning is proceeding for the Alvares well bore to be assessed for its suitability as the basis for drilling a side-track as a cost-effective way of evaluating the prospectively of extensive high-pressure gas shows discovered while drilling for oil in 1982. The upper 500 metres thick interval of the best gas shows were not previously evaluated due to logging difficulties related to high pressure gas influx.

Further details on the Alvares Project have been included in previous Sacgasco presentations available through the ASX website or on Sacgasco's website.



Alvares Location

DECEMBER QUARTER PRODUCTION UPDATE

The below table outlines Saccgasco's current operated Well Interests:

Gas Field	SGC Working Interest (WI)	Total Wells	Wells in Production
Rancho-Capay/Rice Creek East	33-50%	10	4
Los Medanos	90%	3	1
Malton	35-69%	8	3
Dutch Slough	69%	4	0
Denverton Creek	70%	1	1

Combined Production	December 2017 Quarter	September 2017 Quarter
Gross mcf * (100%)	53,682	65,091
Net SGC mcf (after Royalty)	21,849	26,225
<i>*mcf – Thousand Cubic feet gas</i>		

Gross Production in the December quarter averaged 584 mcf / day. The relatively modest production decrease during the quarter reflects some natural decline and operational disruptions due to odourizer installation for safety reasons. Production from Dempsey 1-15 commenced in January 2018 and will be included in the next quarterly report.



Dempsey 1-15 Natural Gas Sales Point

Permitting to Increase Operated Natural Gas Production

The Company has continued permitting pipeline connections to facilitate an increase in natural gas production by bringing back online some of the 2017-acquired shut-in gas wells.

Sacgasco has also identified additional workover opportunities and pipeline connections in its portfolio that provide opportunities for further increases in production in the near future. While there is an obvious focus to bring larger projects into production, at Dempsey and Alvares, scaling up production from the company's portfolio of 27 wells is also a focus. The company is planning on at least two workovers in the first quarter as well as the re-connection of wells previously worked over. Opportunities have been identified in the Sacgasco portfolio of wells for multiples of current production levels.

Production facilities also provide access points for future exploration success from Sacgasco's appraisal and exploration activities. This has been demonstrated by the quick connection of the Dempsey 1-15 well for an extended production test while awaiting stimulation design and permitting.

EXPLORATION, APPRAISAL AND NEW VENTURES

Exploration leases have continued to be maintained and acquired within the Sacramento Basin during the quarter. SGC has a net working interest (WI) of between 33% and 100% in oil and gas leases which cover natural gas prospects ranging in size from 5-20 Bcf to over 2 Tcf of recoverable prospective reserves of natural gas.

Review of Sacramento Basin activity including drilling on the Dempsey and Tulainyo Projects has reinforced the belief that SGC has significant exposure to world-class, multi-Tcf natural gas projects. Technical data and ongoing analysis continues to be used to identify and upgrade additional prospects for leasing and future exploration drilling.

TENEMENT LIST (as 31st December 2017)

Project name	Location	Working Interest (WI)*
<i>Dempsey Project</i>	Sacramento Basin Onshore Northern California	50%
<i>Alvares Project</i>	Sacramento Basin Onshore Northern California	39%
<i>Dempsey Trend Prospects</i>	Sacramento Basin Onshore Northern California	36%
<i>Los Medanos Gas Field</i>	Sacramento Basin Onshore Northern California	90%
<i>Malton Gas Field</i>	Sacramento Basin Onshore Northern California	35-69%
<i>Dutch Slough Gas Field</i>	Sacramento Basin Onshore Northern California	69%
<i>Denverton Gas Field</i>	Sacramento Basin Onshore Northern California	70%
<i>Rancho Capay Gas Field</i>	Sacramento Basin Onshore Northern California	33-50%
<i>East Rice Creek Gas Field</i>	Sacramento Basin Onshore Northern California	50%

Note: WI* – Approximate numbers represent post farmout working interests

SACGASCO CAPITAL STRUCTURE

ISSUED CAPITAL at 10 JANUARY 2018

Ordinary Shares	244,783,015
Unlisted Options exercisable @ 10 cents 30 September 2019	9,500,000
Unlisted Options exercisable @ 15 cents 31 December 2019	27,500,000

Note:

In October 2017, 811,805 shares in lieu of director's fees and consulting fees were issued as approved by shareholders, and 1,000,000 unlisted options were converted to shares upon payment of the \$100,000 option exercise fee.

In January 2018, 227,273 shares as part payment of director's fees, and 155,858 shares in lieu of consulting fees were issued as approved by shareholders, and a further 500,000 options were converted to shares upon payment of the \$50,000 option exercise fee.

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 natural gas exploration and production 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.

www.sacgasco.com

Twitter: @SacGasCo

Leases:

US exploration is conducted on leases grant by Mineral Right owners, in SGC's case primarily private individuals or groups. Leases can vary in size from very small parcels (part of an acre) to large landholdings (covering a few square miles). Leases generally are for 5 years and rentals are paid annually. There are no work commitments associated with the leases. Some leases are 'Held By Production' and royalties, are paid to mineral right owners in lieu of rentals. SGC has not listed all it leases as it is impractical and not meaningful for potential project value assessment in a conventional natural gas play. A detailed listing of leases may also lead to a loss of competitive advantage and consequent reduced value to SGC shareholders.

Competent Persons

This document contains forward looking statements that are subject to risk factors associated with the oil and gas industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by many variables which could cause actual results or trends to differ materially. The technical information provided has been reviewed by Mr Gary Jeffery, Managing Director

of Sacgasco Limited. He is a qualified geophysicist with over 45 years technical, commercial and management experience in exploration for, appraisal and development, and transportation of oil and gas. Mr Jeffery consents to the inclusion of the information in the form and context in which it appears.

Facilities depicted in images on the Sacgasco website are not necessarily assets of Sacgasco. Some of the images used represent aspects of the oil and gas industry in which Sacgasco is involved or images of equipment owned by companies providing services to Sacgasco.

Before investing it is recommended that investors conduct their own due diligence and consult financial and technical advisors.

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Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

SACGASCO LIMITED

ABN

83 114 061 433

Quarter ended ("current quarter")

31 DECEMBER 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	155	690
1.2 Payments for		
(a) exploration & evaluation	(3,257)	(3,257)
(b) development	-	-
(c) production	(122)	(684)
(d) staff costs	(15)	(161)
(e) administration and corporate costs	(420)	(1,059)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	(17)
1.6 Income taxes paid	-	(4)
1.7 Research and development refunds	-	-
1.8 Other (<i>Net JV Receipts</i>)	919	1,057
1.9 Net cash from / (used in) operating activities	(2,740)	(3,435)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1)	(113)
(b) tenements (see item 10)	-	-
(c) investments (<i>shares in o/s company</i>)	-	(191)
(d) other non-current assets (<i>DOGGR Bond</i>)	-	(267)

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Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments (<i>shares in o/s company</i>)	-	535
	(d) other non-current assets (<i>Refund of Bond</i>)	-	20
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (<i>Cash held on acquisition of subsidiary</i>)	-	71
2.6	Net cash from / (used in) investing activities	(1)	55

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	5,022
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	175	382
3.4	Transaction costs related to issues of shares, convertible notes or options	16	(156)
3.5	Proceeds from borrowings	-	270
3.6	Repayment of borrowings	-	(286)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	191	5,232

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,523	118
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,740)	(3,435)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1)	55
4.4	Net cash from / (used in) financing activities (item 3.10 above)	191	5,232
4.5	Effect of movement in exchange rates on cash held	32	35
4.6	Cash and cash equivalents at end of period	2,005	2,005

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Mining exploration entity and oil and gas exploration entity quarterly report

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	2,005	4,523
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,005	4,523

Included in the above balance is \$1.5m of cash held by Peoco LLC, a wholly owned subsidiary of Sacgasco, which represents cash calls made by Peoco LLC for exploration expenditure incurred up to 31 December 2017 but not yet paid. This includes amounts paid by Sacgasco.

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	5
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Includes salaries and fees paid to Directors of the company and interest payable on loans received from Directors.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

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Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation (net)	1,500
9.2 Development	-
9.3 Production	-
9.4 Staff costs	23
9.5 Administration and corporate costs	73
9.6 Other	-
9.7 Total estimated cash outflows	1,596

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	N/A			
10.2 Interests in mining tenements and petroleum tenements acquired or increased	N/A			

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Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



Date: 31 January 2018

Company Secretary

Print name: David M McArthur

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.