

17th December 2013

Recommendation:	Speculative Buy
ASX Code:	MPE
Share Price:	\$0.014
52 Week High:	\$0.02
Low:	\$0.01
Issued Ordinary Shares:	806M
Options:	18.5M
Market Cap:	\$11.2M
Cash:	\$1.3M
Enterprise Value:	\$9.9M
Top 20 Shareholders:	69%
1 Year Share Price Graph	



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Magnum Gas & Power's gas discovery in Botswana may form part of massive CBM gas field

Key Points

- **Magnum Gas & Power** has acquired strategic Coal Bed Methane "CBM" assets in Botswana, which host massive coal resources potentially suitable for CBM extraction.
- Magnum is fast tracking development of its first Coal Bed Methane gas discovery within the Central Project area of Botswana.
- This forms part of a much larger CBM gas field that is under development by industry majors: **Sasol** (US\$37B Market Cap), **Origin Energy** (US\$15.6B), **Exxaro Resources** (US\$4.9B) and smaller developers such as **Kalahari Energy** and **Tlou Energy** (ASX:TOU) \$40M.
- Magnum and these companies are in the midst of drilling and evaluation programmes for CBM that are part of a new multi-billion dollar gas production industry in Botswana.
- Magnum's recent core drill hole intersected 90m of carbonaceous interval, with 16 metres of clean coal that assayed over 95% methane. A second hole is ready for coring, testing and analysis, and drilling is planned for an additional two holes.
- The two new holes are proximate to Karoo Central which is under development by Tlou Energy (ASX: TOU). Tlou has reported consistent coal seam intersections of 22 to 36 metres with CBM gas intersections.
- **Tlou's high estimate for prospective resources is 14.3 Trillion Cubic Feet of Gas in Place and is capitalised at A\$40 million. Magnum estimates 12.6 Trillion Cubic Feet of Gas in Place and is capitalised at A\$11.2 million.** This provides leverage for Magnum investors to the drilling program underway by its neighbours: Tlou, Sasol/Origin and Exxaro.
- Investors are looking to increase exposure to the basin, highlighted by Tlou's current total equity raising of \$13.4m, which includes the Retail Entitlement Offer component being fully underwritten.
- We estimate that Magnum's market cap. is primed to move from the current \$11.2m to between \$12.9m to \$15.3m.
- On our estimates, this would take place Magnum at a share price of \$0.016 to \$0.019 with 9-12 months. **Speculative Buy.**



Background

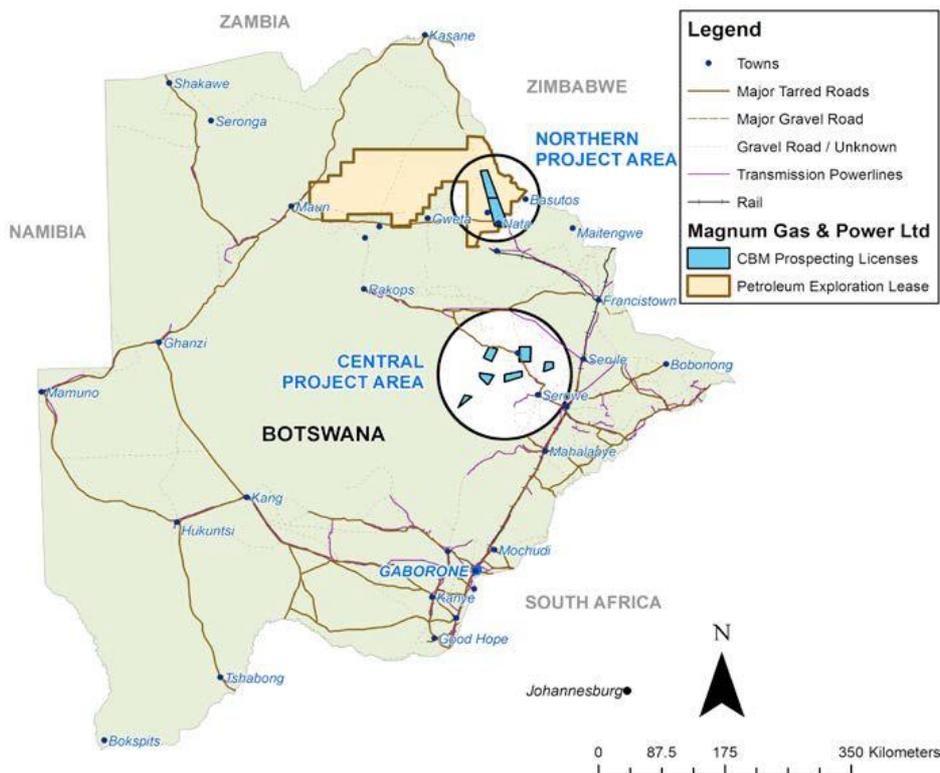
Magnum Gas & Power (ASX:MPE) is an ASX listed energy exploration and development company with a project portfolio that includes Coal Bed Methane and Petroleum exploration interests in Botswana, Africa and Coal Seam Gas interests that straddle the outlying fringes of Sydney, Australia.

The Company has a strong management team that has a proven record in the development of Coal Seam Gas and Oil & Gas. Tom Fontaine serves as Non-Executive Chairman, and is a professional engineer. He was one of the founders of **Pure Energy Resources** that was established to develop Coal Seam Gas resources in Queensland and was acquired by **BG Group** for approximately \$1 billion in 2009.

Trent Wheeler serves as Managing Director, and is a professional engineer with significant international experience in the energy and resources sector that includes both upstream and downstream development of oil, gas, mineral, metal, chemical and power projects in Australia, Canada, America, South East Asia and Botswana.

The Directors and Management team control around 37% or approximately 288 million issued shares in Magnum, and have plenty of “skin in the game” to drive development of company assets in a way that is most advantageous to all shareholders.

The company’s focus is on the fast track development of the Botswana Coal Bed Methane assets, and fulfilling the energy deficiency in the area.



MAGNUM PROSPECTING AND PETROLEUM EXPLORATION LEASES IN BOTSWANA

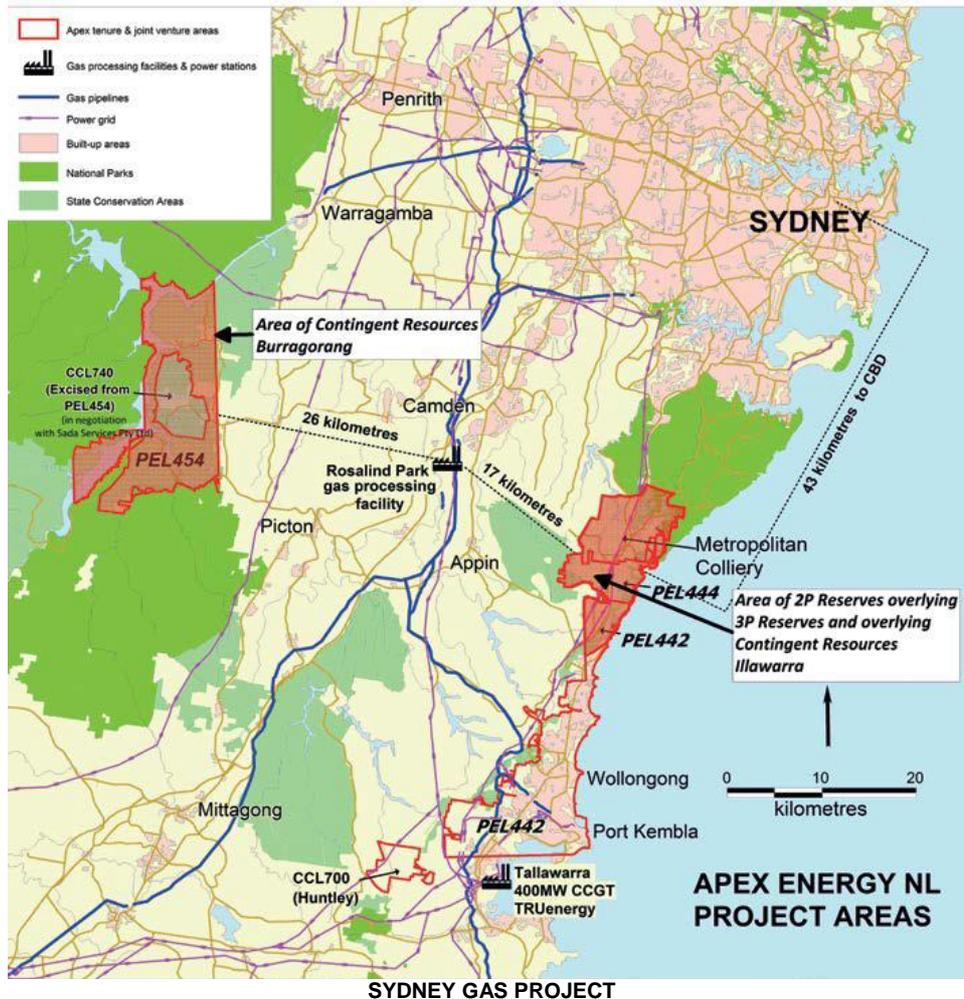
The CBM Projects currently include a strategic portfolio of 100% owned exploration licences that cover approximately 2,300 square kilometres / 467,950 acres within two prospective areas of the Kalahari Karoo Basin. These are known as the Northern Project and Central Project.

Pre-Feasibility Studies completed by CBM consultants have estimated a Gas in Place resource of 12.6 Trillion Cubic Feet / 13,100PJ, with an estimate of economically recoverable resources measured at 6.7 Trillion Cubic Feet / 7,000PJ or 1.1 billion barrels of oil equivalent.



The Company was recently awarded a 100% interest in 24,300 square kilometres of conventional Petroleum Exploration Licence. Desktop top studies are underway.

The Company also owns a 20% interest in the Sydney Coal Basin Project that covers 366 square kilometres, and has a farm-in agreement with APEX Energy NL to earn a further 30% in the project area. Magnum also holds an additional 13% interest in APEX Energy.



Gross Gas 2P Resources within the project area are estimated at 58PJ, 3P Resources at 210PJ, and Gas in Place at 2.6 Trillion Cubic Feet. These resources are strategically located next to a major market and are currently at a standstill while the state government awaits consideration of a Chief Scientist's report.

Current Status – Focus on Botswana and Central Project

Botswana is one of the wealthiest non-oil producing countries in Africa that has a highly educated and literate workforce of 2 million people. GDP growth in 2012 was 6.1%, and is estimated at 5.6% in 2013. The country has a British based legal system and corporate practice, and is a mature democracy with entrenched political stability that holds free and fair elections.

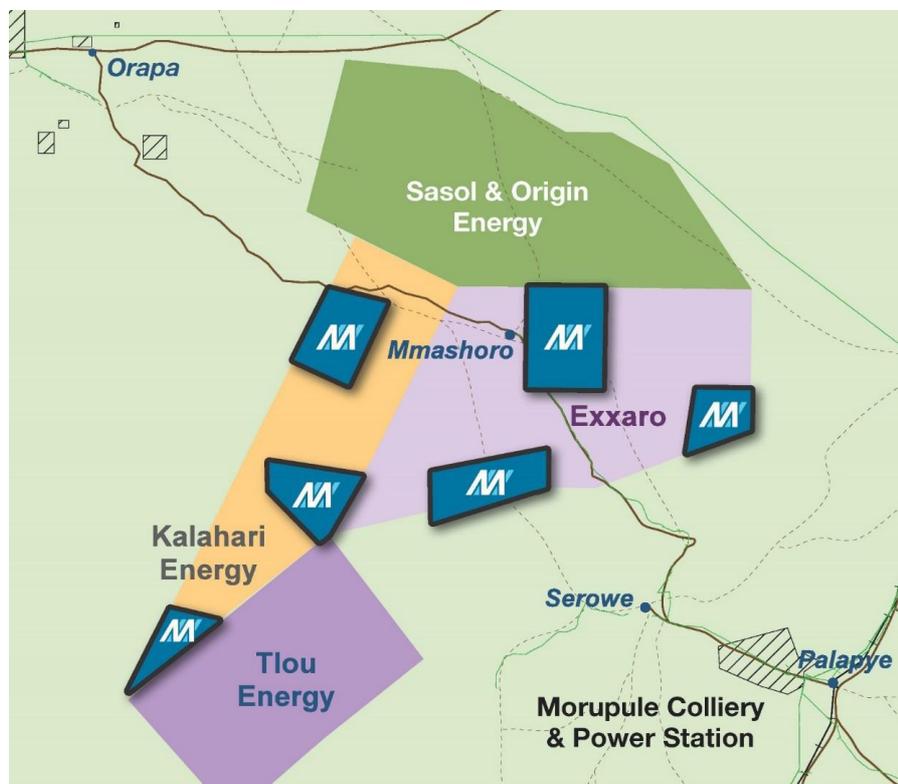
The country scores 70.6 on the 2013 Index of Economic Freedom, making it the 2nd best of 46 countries in Sub-Saharan Africa, and is well above regional and world averages. Botswana has an investment environment that supports investment, has no exchange controls, favourable tax regime along with low sovereign risk and low corruption.



The Resource Stocks World Risk Survey of 2013 for Mining and Petroleum Exploration ranked Botswana in 4th place, ahead of Australia in 6th place.

Currently Botswana power demand is outstripping supply. Gas also represents an attractive alternative for off-grid temporary power solutions, currently relying on diesel generation (1 – 2MM GJ p.a.). The local electricity market currently relies on coal fired power for 528MW and expensive diesel for 160MW (of which 90MW is a dual fuel unit awaiting CBM gas) for a total of 688MW that is feeding a fast growing market that is forecast to consume from 900MW to 1,100MW in 2020. Imports from neighbouring countries of up to 450MW make up the demand imbalance, and may not be available in the future due to avaricious power demand in Southern Africa. Therefore there is already some infrastructure in place waiting for gas, to transition from expensive diesel.

Co-operative government regulators are now seeking local energy sources to develop a long term solution to the supply of both local and export electric power. Local diesel and gas power generation capacity is now seeking local CBM supply, and first Contingent Resources of CBM have already been booked in the basin.



MAGNUM CBM LEASES AND PROXIMITY TO MAJOR PEER GROUP CBM PROJECTS

Magnum wholly-controls 6 blocks known as the Central Project that covers 1,200 square kilometres of prime CBM exploration acreage within the Mmashoro CBM Basin, and constitutes the southern part of the current CBM portfolio. These blocks are surrounded by much larger peers that include Sasol & Origin Energy, Exxaro and smaller junior explorers Kalahari Energy and Tlou Energy, who are reporting success in the development of CBM resources within the same extensive coal sequence.

Early drilling by Magnum on the most north-western block intersected a carbonaceous interval of 90 metres that included 16 metres of clean coal that assayed methane gas at +95%. A second exploration borehole on the nearby block to the east has been drilled and suspended, and is ready to core. Two of the most south-western blocks are now also drill ready.

Near term development will include drilling and collection of core samples. This will be followed by gas measurement, down-hole testing, and completion of appraisal wells, flow testing and step out wells in the preferred area (sweet spot). This work will allow Magnum to develop estimated Gas In Place into 3C to 1C Resource status and then into Reserves status.



Commercialisation

Botswana has dual fired (gas and diesel) electric production facilities in place that is capable of switching from expensive and imported diesel fuel to locally produced CBM gas.

Contingent Resources of CBM gas have been confirmed around the Central Project area by several developers. These are in the process of being upgraded to reserve status.

Magnum is pursuing vertical integration via partnering and commercial relationships into gas off take agreements that will require a critical mass of reserves for larger projects.

Development options include small skid mounted power generation units outputting 3 to 5 MW for smaller communities, and larger gas turbine units operating in tandem to output hundreds of MW of electric power into the power grid for larger towns, cities and potentially for export into neighbouring countries.

Sales of gas for electricity will cover production shortfalls within Botswana, and provide significant export opportunities across landlocked borders into neighbouring countries. South Africa is forecasting potential shortfalls of up to 2,000MW of electricity production in 2016, and significant production shortfalls are also reported in Namibia, Swaziland, Mozambique and Zimbabwe.

The availability of significant volumes of gas will also drive the development of gas to diesel, and includes Sasol of South Africa, which has a long term involvement with the conversion of hydrocarbons to diesel. Other downstream applications include the production of fertilisers, mining explosives and methanol.

Long term Strategy - drive up value of resource assets

- Commenced exploratory drilling that is aimed at converting Gas In Place to Reserves.
- Obtain leverage from certification of ongoing reserve development by nearby peers.
- Access marketing opportunities via commercial relationships with local peers.
- Secure up to 100% interests in local green-field hydrocarbon projects that exhibit high potential via developed local contact base.
- Continue with regional diversification within Southern Africa and upside potential from strategically placed Australian gas assets located around Sydney. Demand from Sydney consumers will eventually drive substantial revaluation and development of the Sydney Gas Project.
- Potential partnering or divestment of Northern Project area through a farm-in or joint venture if another major seeks a footprint in the basin.

Catalysts – near term

- Completion of coring and assaying of second borehole located within the Central Project area in Botswana, and announcement of results.
- Drilling of two south-western blocks within the Central Project area, and announcement of results.
- Leverage off neighbour's exploration operations. Certification by peers is in progress.
- First reserves in the basin potentially within a year.
- Any potential partnering or divestment by Magnum (farm-ins, joint ventures or funding deals), which could be triggered from coring or certification activities and results of Magnum or its neighbours.



Valuation

Magnum has issued 806 million shares that are trading at \$0.014 for a market capitalisation of \$11.2 million that includes current cash resources of \$1.3 million ie an Enterprise Value of \$9.9million.

The Central Project partially abuts the Karoo Central Project held by Tlou Energy (ASX: TOU) and is the flagship project for Tlou which is capitalised at \$40 million, with an Enterprise Value of \$37.6million. Development of Karoo Central commenced in 2011 and 2012, and has expensed approximately \$40 million to develop 2.3 Trillion Cubic Feet of 3C contingent gas resources from Gas In Place of 14.3 Trillion Cubic Feet.

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This provides leverage for Magnum investors to the drilling program underway by its neighbours: Tlou, Sasol/Origin and Exxaro.

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Tlou has reported on exploration and development drilling that is adjoining the Magnum licences that consistently carry 22 to 36 metre coal seams. Tlou is also reporting the presence of shale seams over widths of 20 to 30 metres that have potential for additional hydrocarbon production, and add more upside to the overall area.

Tlou is reporting upgraded 152.2 BCF of 2C resources in their Karoo Central licences **which abut two licences that are owned by Magnum and will be drilled shortly.**

Magnum's strategy is to leverage off of its neighbour's exploration programs from major exploration programs underway in the Basin. The majors are also working to certify Reserves.

As this occurs, we estimate that Magnum's market cap. is primed to move from the current \$12.2m to between \$12.9m to \$15.3m.

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