Hit the Reset Button: Samson Oil & Gas Ltd. Makes a Conventional Transformation

If all you read were the headlines, investors might believe that the only oil and gas investment opportunities existing today are with E&P companies drilling in the Permian Basin, specifically the horizontal Wolfcamp plays in the Delaware Basin region. If that were the case, then investors are missing out on ideas with relatively low risk, but high potential. One of those ideas is Samson Oil & Gas Ltd. (NYSE, ASX: SSN), which has made a significant transformation of a more conventional nature.

The last time we took an in-depth look at Samson was back in 2010, when the Company was focused on entering unconventional plays, including the Niobrara oil play in the northern Denver-Julesburg (DJ) Basin and the Bakken oil shale play in the Williston Basin, in our reports "Getting Up to Speed" on December 29, 2010 and "Turning the Bit in the Right Direction" on August 6, 2010, respectively.

To say that a lot has happened in the oil markets since 2010 would be a massive understatement. The average price for West Texas Intermediate (WTI) in August 2016 was $44.80 per barrel, 40% lower than the same month last year. The shale revolution that powered America to become the world's largest oil producer shifted global market dynamics, and flipped a demand-driven market to one driven by a persistent oversupply. At prevailing commodity prices, drilling in many resource plays is uneconomic with the exception of a few "core of the core" areas, such as the Delaware Basin region of the Permian Basin in West Texas, the DJ Basin in Colorado and the Eagle Ford trend in southern Texas.

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Although these prolific resource plays are necessarily attractive, they are capital intensive and can be cost prohibitive for a small-cap company to develop. Instead of chasing premium unconventional assets in an increasingly competitive market, Samson has pivoted to profitable growth from conventional oil assets and the application of "block-and-tackle" operational excellence. The Company has made several key initiatives to improve its competitive position, increase visible growth opportunities and strengthen its balance sheet. Samson has essentially hit the reset button on growth with some bold moves.

Here's What's New:

- **Core Asset Acquisition**: On April 3, 2016, Samson completed the acquisition of its conventional Foreman Butte assets, including oil and gas leases, producing wells, shut-in wells and associated facilities in North Dakota and Montana for cash consideration of $16 million.
- **Updated Net Present Value for Foreman Butte:** The net present value of the Foreman Butte asset, using a ten percent discount rate, was valued at $109.3 million as of June 30, 2016, a 30% increase over the October 1, 2015 evaluation. Both valuations were performed by the independent reserves engineering firm of Netherland, Sewell and Associates.

- **Sold Non-Core Assets to Refocus the Portfolio:** On August 31, 2016, Samson executed a purchase and sale agreement to sell its interest in the North Stockyard Field in the Williston Basin of North Dakota for cash proceeds of $15 million. This sale enables the Samson team to focus on creating value in its new core asset of Foreman Butte.

- **Cleaning-Up the Balance Sheet:** $11.5 million of the proceeds from the North Stockyard Field divestiture will be used to pay down debt on the Company's reserve based lending facility. Samson has received a non-refundable deposit of $1 million as part of the $15 million total consideration.

- **NYSE Accepts Compliance Plan:** Like many E&P companies in the down cycle, Samson's financial metrics have suffered, causing deficiencies in meeting exchange listing requirements. On June 1, 2016, Samson announced that the NYSE MKT had accepted the Company's plan to regain compliance with the exchange's listing requirements. Samson has until September 14, 2017 to regain compliance with the applicable listing rules.

Samson Foreman Butte Acquisition Overview

The Foreman Butte acquisition has proved to be both timely and fruitful. When Samson took control of the asset in April 2016, the properties were producing approximately 300 barrels of oil per day (BOPD). Today, the field is producing about 1,300 BOPD, an increase of over 333%, thanks to solid engineering and remediation work and a capital investment of only $800,000.

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To review the details, on January 5, 2016, Samson announced that they had entered into a contract to acquire a parcel of oil and gas leases, producing wells, currently shut-in wells and associated facilities in the Williston Basin of North Dakota and Montana for a cash price of $16 million. At the time of the announcement, the properties were producing approximately 720 BOPD from 41 net producing wells and had proved reserves, estimated by Netherland Sewell & Associates, of 8.5 MMBOE with a Net Present Value of $84.9 million, as of October 1, 2015, the effective date of the transaction.

The 51,305 net acres of petroleum leases being acquired include the right to exploit hydrocarbons down to the top of the Bakken Formation. In the North Sioux Pass Field, Samson also acquired the rights to the deeper geologic section below the Bakken pool. These deeper rights include the producing reservoirs of the Nisku, Interlake and Red River Formations. Most all of the properties have been producing for several years from multiple geologic horizons above the Bakken Formation, including the Ratcliffe and Mission Canyon intervals of the Mississippian Madison Formation, which are the sources of most conventional oil and gas accumulations in the Williston Basin.

Based on the $16 million purchase price the assets, the deal was valued at $22,222 per flowing barrel of oil equivalent per day (BOEPD), or $1.68 per barrel of oil equivalent (BOE) of proved reserves.

Acquisition Pricing, A&D Market Multiples and Oil Price

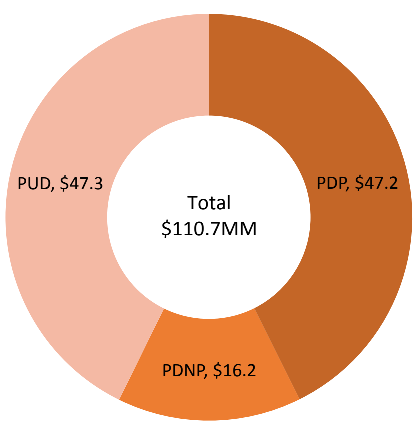
EnerCom analyzed 31 oil-weighted U.S. oil and gas transactions at the time of the Foreman Butte acquisition to understand the A&D market relative to the SSN acquisition. The table below summarizes the transactions over the Q3'15 to Q1'16 time period.

	Average Valuation Metrics		
	$/ BOEPD	$/BOE	Average WTI Price
Foreman Butte Deal	$22,222	$1.68	$35.97
Q1'16	$67,110	$19.33	$32.76
Q4'15	$79,450	$6.51	$42.16
Q3'15	$119,801	$17.53	$46.50

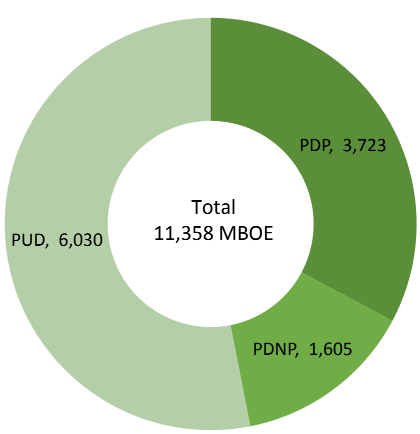
Source: EnerCom Analytics and Bloomberg L.P.

The Foreman Butte deal was valued lower than both the value per-proved reserves and flowing production multiple averages for each time period analyzed. Directionally, the sequential declines in both valuation multiples over the time period analyzed in the table above are consistent with the weakening of commodity price fundamentals and the longer term correlation of oil prices and deal values.

Total Proved Reserves, as of June 30, 2016 PV-10 Value ($MM)



Total Proved Reserves, as of June 30, 2016 (MBOE)



We estimate the fair market value of the Foreman Butte assets at the time of acquisition to be $26.2 million, based on the average $/BOEPD of $67,110 and then current production of 300 BOPD, which is slightly higher than the $22.8 million of PDP reserves, and implies a PUD value of $3.4 million.

By pivoting to out–of-favor conventional assets, Samson clearly avoided the dreaded "winner's curse" of paying too much for hotly contested acreage, which positions the Company for generating strong returns from its new core asset.

Foreman Butte Operations Driving Value Creation

The Company's initial focus at Foreman Butte has been on restoring production from neglected wells having Proved Developed Non-Producing (PDNP) reserves. Samson has brought 32 wells back on production by doing simple, low cost maintenance work that included tubing change outs, rod replacements, pump replacements and surface facility repairs. As a result of these efforts, production from Foreman Butte has increased 333% to 1,300 BOPD from 300 BOPD when workover operations began. For a cost of $0.8 million, this work generated an uplift in proved reserves of approximately $12 million of PV-10 value.

On September 12, 2016, Samson released an updated reserves report prepared by Netherland, Sewell & Associates, which as of June 30, 2016 estimated the PV-10 value of Samson's proved reserves, pro forma the North Stockyard sale, at $110.7 million, with $47.2 million attributed to Proved Developed Producing (PDP) reserves, $16.2 million to PDNP and $47.3 million associated with Proved Undeveloped (PUD) reserves.

What is Exciting about Conventional?

Conventional reservoirs that require minimum stimulation, like those at Foreman Butte, cost 50% less to develop when compared to drilling and completing unconventional wells.

In a market that has been driven by large unconventional resource play development, Samson has established a competitive differentiation by positioning itself into by-passed, mature conventional oil and gas assets. Conventional reservoirs that require minimum stimulation, like those at Foreman Butte, cost 50% less to develop when compared to drilling and completing unconventional wells.

The seller originally purchased the Foreman Butte leases for the purpose of developing the unconventional Bakken resource play, and the shallower conventional assets never fit that company's investment thesis. Consequently, the conventional wells languished while the seller pursued the deeper Bakken and Three Forks intervals. Once the energy down cycle hit, like many companies the seller decided to divest assets that no longer had near-term value.

At the time Foreman Butte was acquired, lifting costs were about $22 per barrel and the wells were not receiving routine repair and maintenance. Samson identified opportunities to reduce lifting costs to $12 per barrel, and the lender who provided the financing wrote that into the loan covenants. At The Oil and Gas Conference™ on August 15, 2016, management announced they had already met the $12 per barrel objective and anticipates achieving additional efficiencies as the Company grows production.

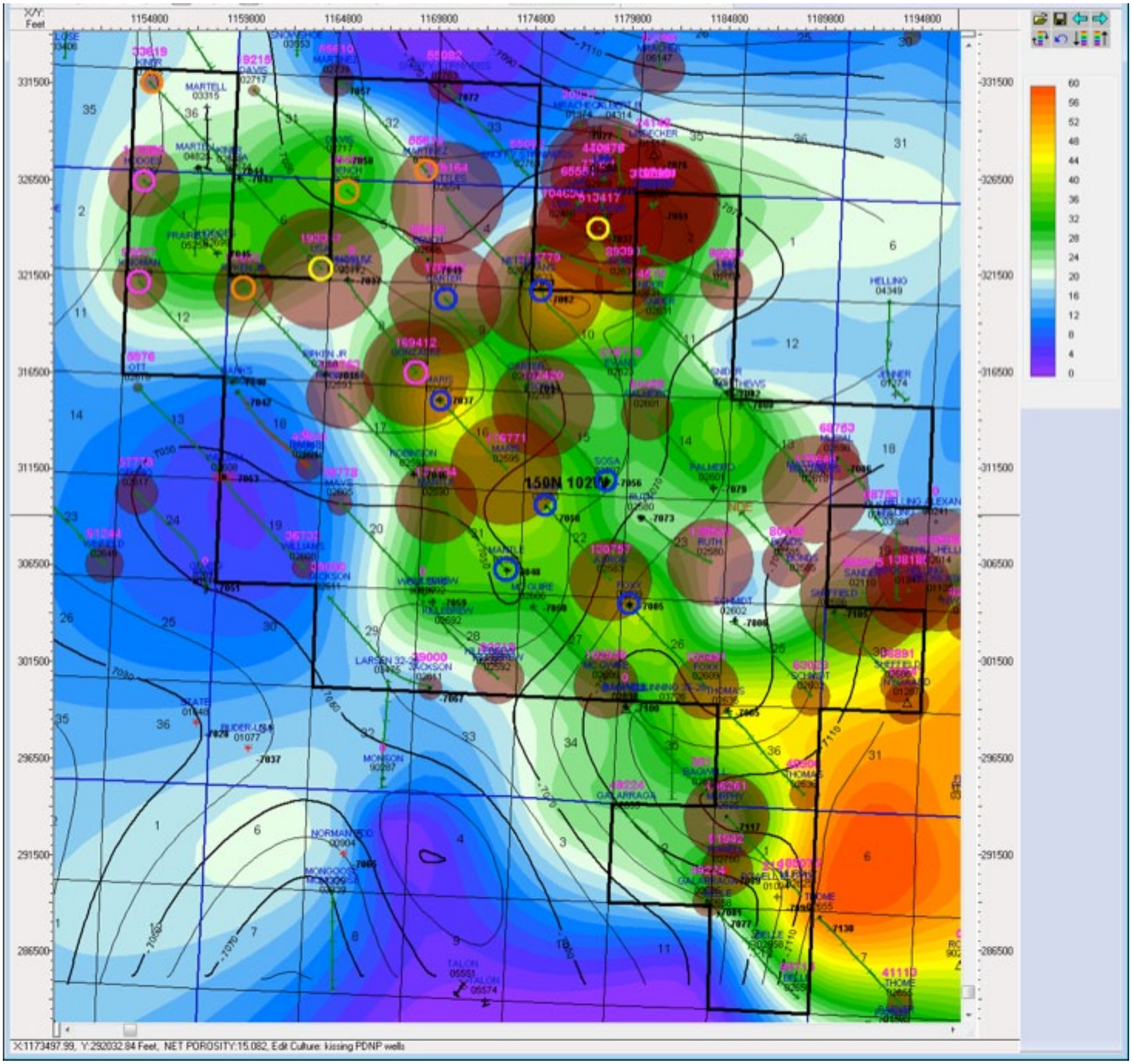
Growth Plan – New Drilling

Samson has identified 17 PUD drilling locations in the porosity fairway of the Foreman Butte Field, and estimates that initial rates of production from the wells will range between 260 and 460 BOPD.

The Foreman Butte Project area consists of five fields, including Foreman Butte, Harding, Dore, Camp, Target and North Sioux Pass. Samson has mapped each field to develop a geologic model, reservoir quality, productive capacity, water cut and infill development potential. The map below illustrates the structure map of the Ratcliffe interval illustrating net porosity feet greater than 4% and cumulative production.

The most attractive oil bearing portions of the Foreman Butte Field are the high-porosity green, yellow and orange portions of the graphic on the next page. Samson has identified 17 PUD drilling locations in the porosity fairway of the field, and estimates that initial rates of production from the wells will range between 260 and 460 BOPD, based on data obtained from offset wells. Additionaly, SSN has identified one other PUD location outside the Forman Butte Field.

With proposed extended lateral infill development wells (9,000-12,000' lateral lengths) the Company estimates the average EUR will be 380,000 barrels.



Source: Samson Oil and Gas

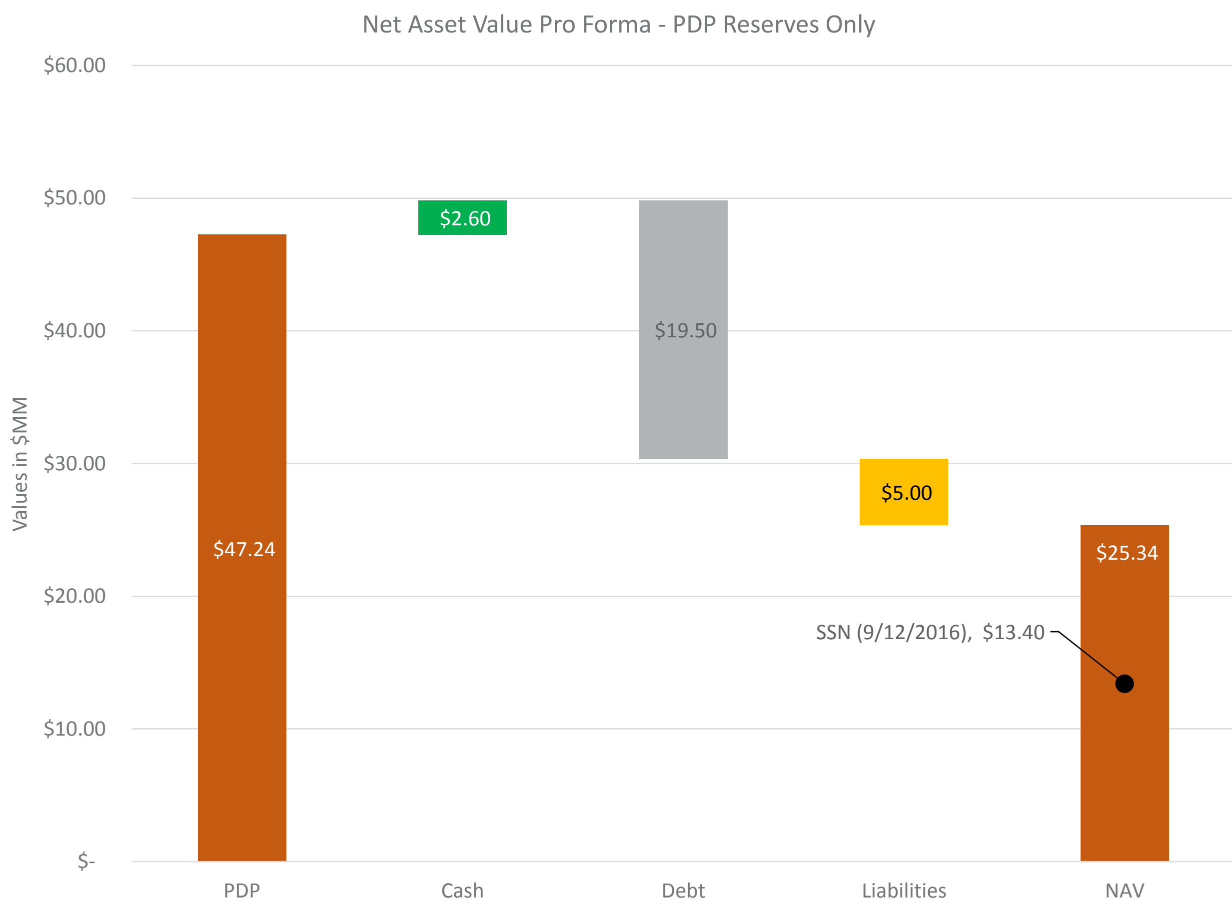
In addition to drilling new wells, Samson is evaluating the potential for re-stimulating existing wells. The typical well in the Foreman Butte Project area is a 5,000 foot vertical wellbore with an open-hole completion. The techniques of freshwater clean-out and acid stimulation have the potential to remove wellbore restrictions that have accumulated over decades of production and/or potentially improving the porosity of the reservoir. The Company is currently testing the potential for both of these techniques.

Valuation Considerations

At this time, we believe the most compelling valuation case for SSN is the disconnect between the Company's Net Asset Value (NAV), based on the proved reserves report that was released on Monday, September 12, 2016 and the prevailing share price.

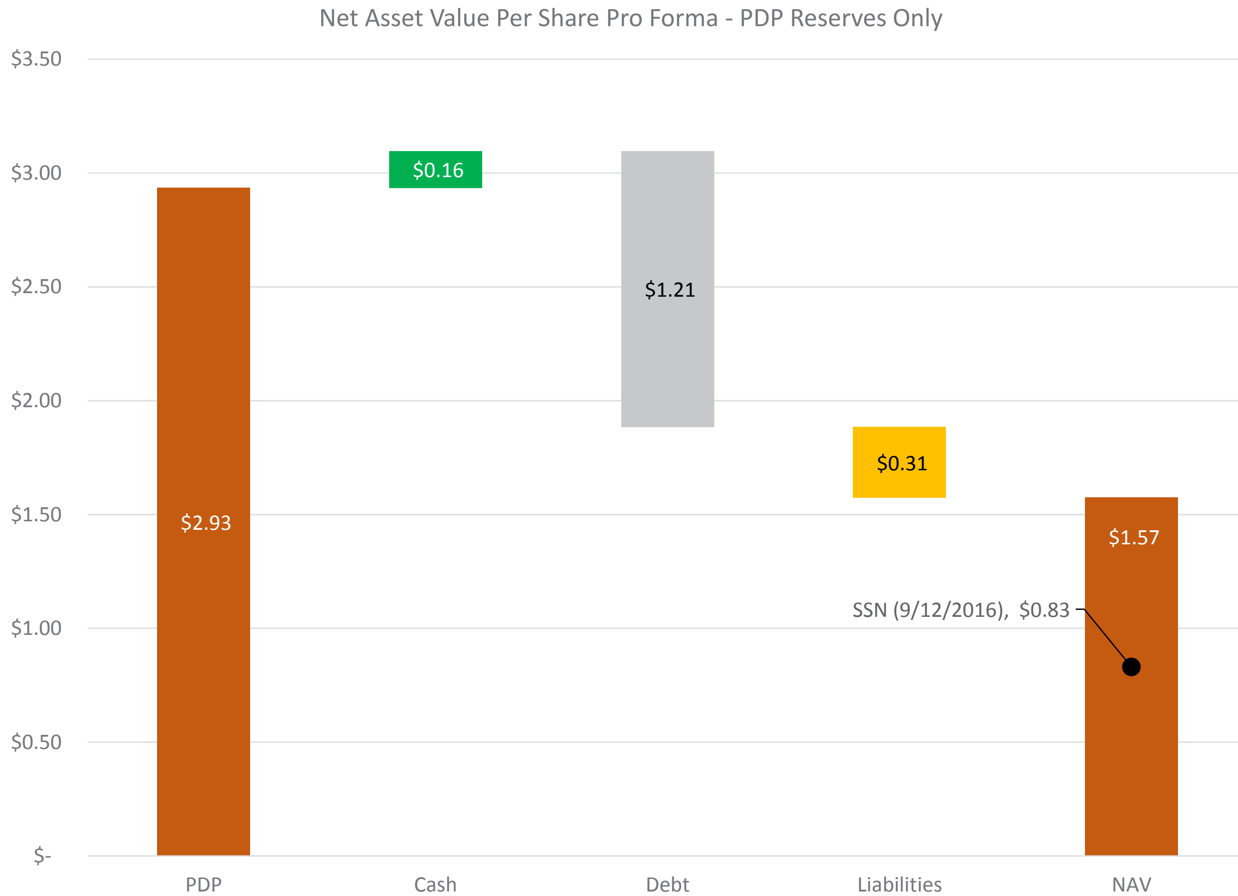
SSN reported pro forma proved reserves associated with the Foreman Butte assets and North Stockyard sale, including PDP, PDNP and PUD, of approximately 11.4 BOE, 87% oil and future cash flows having a present value of $110.7 million when discounted at a rate of ten percent. We focused our base case analysis on the value of the PDP reserves only.

The chart below illustrates the per-share valuation of the Company, using the 16.1 million shares outstanding as of September 12, 2016.



Source: EnerCom Analytics and SSN Company Data

The chart below illustrates our pro forma PDP net asset value estimate on a per-share basis.



Source: EnerCom Analytics and SSN Company Data

- SSN's proved developed reserves at Foreman Butte have a PV-10 value of $47.2 million, as of June 30, 2016, as compared to its market capitalization of $13.4 million, as of September 12, 2016. Note that SSN's Enterprise Value is $29.9 million, assuming pro forma debt of $19.5 million (net of the proceeds from the North Stockyard asset sale) and cash of $2.6 million as of June 30, 2016.

- We estimate the Company's pro forma Net Asset Value at $25.3 million, as compared to SSN's market capitalization of $13.4 million, representing a gap of $11.9 million between intrinsic value and prevailing market value.

- On a per share basis using PDP reserves only, we estimate Samson's NAV at $1.57, as compared to the closing value of the Company's shares of $0.83 on September 12, 2016.

The implication of our analysis is that even if we consider a conservative pro forma NAV per share of $1.57, using the PV-10 value of PDP assets of $2.93, plus cash, less debt and liabilities, SSN's closing price as of September 12, 2016 is still undervalued by a factor of nearly 2x.

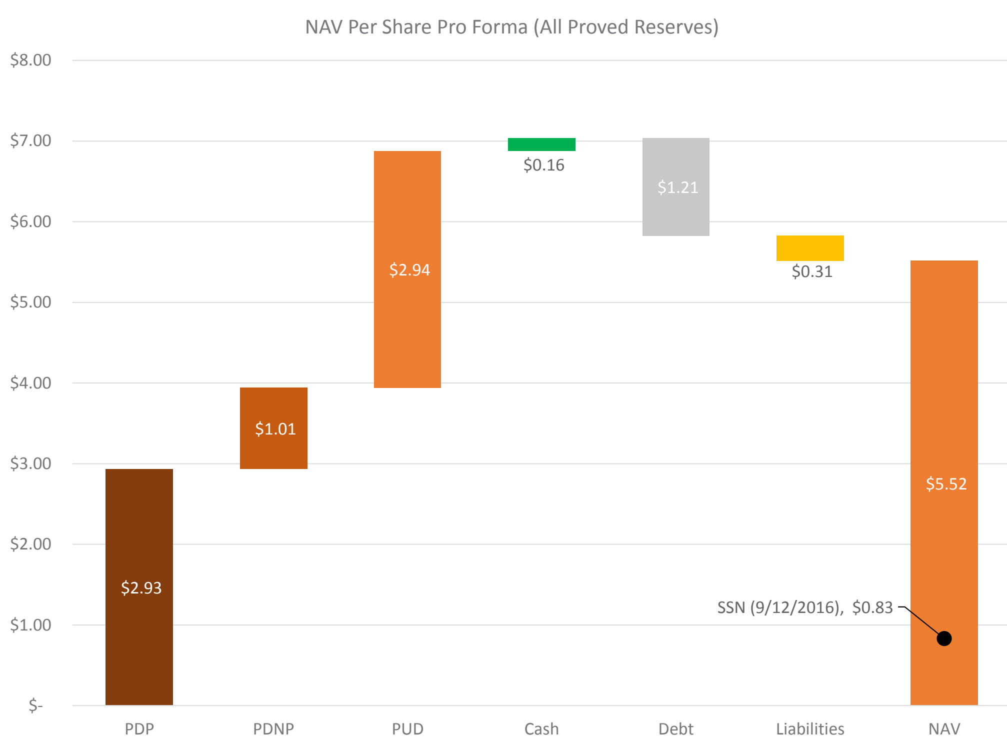
Although the current disconnect between intrinsic and market value offers investors a near-term opportunity on which to capitalize, the Company has line-of-sight growth potential from (a) converting PDNP reserves to producing assets from additional remediation projects and (b) raising additional capital to drill the 18 identified PUD infill locations.

These wells can be drilled economically at oil prices of around $20 per barrel.

Let's turn our attention to how these opportunities impact the Company's value. We note that Samson reported PUD well costs of $2.8 million, which would add reserves of 380,000 barrels of oil per well at a cost of $7.36 per barrel. Add this development cost to the $12 per barrel operating costs outlined above, these wells can be drilled economically at oil prices of around $20 per barrel. SSN has filed a development plan for the first three infill drilling locations.

If we include the PV-10 value of SSN's total proved reserves value of $110.7 million, net of debt and accounting for cash, we estimate the pro forma NAV per share for Samson at $5.52.

The current gap between SSN's prevailing share price and intrinsic value provides investors a relatively low-risk opportunity to take a position and profit from the Company's execution on visible growth opportunities.



Source: EnerCom Analytics and SSN Company Data

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