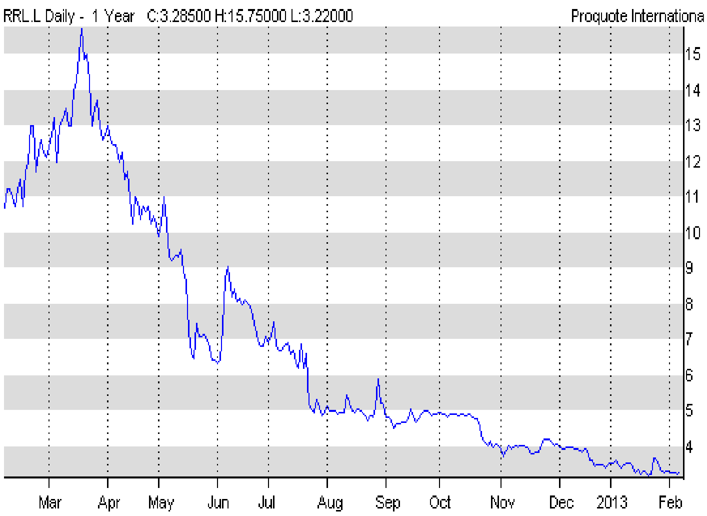
RANGE RESOURCES

3.32p A$0.051

Guatemalan projects promise attractive upside

8 February 2013



Recommendation	**BUY**
Sector:	Oil & Gas
Exchange & Ticker:	AIM: RRL, ASX: RRS
Shares in issue:	2,505.4m
Fully diluted equity:	2,663.4m
Market cap:	£81.4m/A$127.8m
Target price:	**16p/A$0.24**

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Range's investment in ASX-listed Citation Resources (CTR) has given it an attractive strategic interest in an ongoing appraisal programme and near term development project in Guatemala. Proved and probable (2P) reserves are modest at this stage. However, CTR is presiding over the basis of a very promising project and we believe that additional drilling activity has the potential to increase reserves significantly.

- Range secured its interest in Blocks 1-2005 and 6-93 (the Guatemalan project) through the acquisition of 19.9% of CTR. In turn, CTR holds the farm-in rights to acquire 70% of Latin American Resources (LAR) which holds an 80-100% interest the blocks. Additional to this, Range acquired a direct 10% equity interest in LAR. This implies a total indirect interest to Range of between 21.14% and 23.93% in the Guatemalan project.
- The project has TSX certified 51-101 2P reserves of 2.3 mmbbls (at least 0.48 mmbbls net to Range) across both blocks. With an acquisition price equivalent to approximately US$8/bbl and a two well appraisal and flow testing programme currently underway, we believe that Range has concluded an attractive and timely deal.
- Range has acquired the interest in CTR through the conversion of a A$2.0m loan to CTR into equity in addition to the issue of 40m shares (plus 40m options) in order to raise a further A$2.0m to acquire a direct 10% stake in LAR. Range will also be finance carried throughout the initial US$25m of expenditure on the projects, reducing the company's exposure to any upfront expenditure in the near term.
- There has been successful exploration drilling previously on the acreage and a two well appraisal programme is underway with the Atzam #4 well currently flow testing. Following the completion of this test, LAR intends to spud Atzam #5 within the next month. A previous well on the same structure; Atzam #2, tested up to 1,200 bopd of 34° API at a depth of 3,850 feet.
- Fiscal terms in Guatemala are very attractive with net backs of US$45 achievable at an oil price of only US$80 per barrel. Consequently, on an NPV 10 basis, we value Range's interest in a presently modest reserve base at between $13.1m and $14.9m depending on the participating interest taken up by partners on future wells.

Risks associated with this project include CTR failing to secure necessary funding and we feel it appropriate to ascribe a raft of conservative criteria, including a 50% commercial risk factor, to our valuation at this stage. As such, we ascribe a preliminary valuation of 0.15p per share (fully diluted). Although our early pass does little to impact our overall target price at this stage, it should be noted that this valuation is based on a very modest reserve base at present and further successful drilling over the next two years is likely to increase the 2P reserve markedly.

Introduction to Guatemala

Guatemala is located in Central America, bordered by Mexico to the north and west and Belize to the northeast. Honduras and El Salvador are located to the southeast. Guatemala is a developing country with a population of 13.3 million. The country has been a relatively stable parliamentary democracy with a civilian president since 1985.

Location map of Guatemala

The Guatemalan oil and gas sector

The Guatemalan hydrocarbon sector is very modest by international standards. Oil production is estimated to be approximately 14,000 barrels per day and the country's proved reserves are a shade over 83 million barrels (Jan 2011 estimate). Guatemala has no gas production although in 2006, gas reserves were estimated to be approximately 104 BCF. Guatemalan daily oil consumption is estimated to be at least 71,000 bopd with most of this satisfied by imports. (Source: Index Mundi, CIA World Factbook).

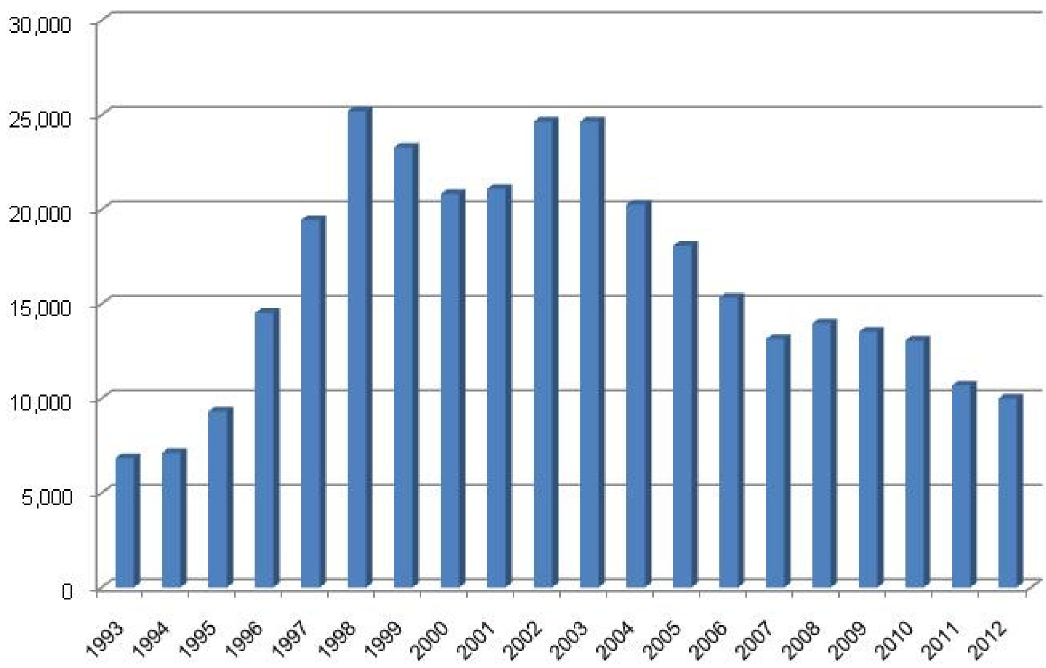
The current statistics regarding the Guatemalan oil and gas sector are slightly misleading given that the only ten years ago, the country had production of nearly 25,000 bopd and has over 100 mmbbls of accumulated historical production.

To date, there have been 153 wells drilled in Guatemala of which 58 produce oil, indicating an attractive drilling success rate. Most Guatemalan crude produced is heavy oil with an average API of 16° and a comparatively high average sulphur content of 6%. Guatemalan crude is sold at an average 66% discount to WTI pricing as a function of its high gravity and sulphur content. (Source: Invest in Guatemala). At present over 90% of domestic production is derived from the North and South Peten basins located in north and central Guatemala respectively.

Oil production in Guatemala

Oil production last peaked at approximately 25,000 bopd in 2003 and has been on decline over the last ten years. Recent production data is somewhat contradictory with estimates for 2012 production ranging from 10,000 bopd to 14,000 bopd. The Guatemalan Ministry of Energy and Mines (MEM) and the CIA World Factbook both estimate oil production in 2011 and 2012 to be in the region of 10,000 bopd on a gentle decline trend. However, given that Perenco has indicated that current production from its Xan field alone is in excess of 11,500 bopd, we believe that Guatemalan production is more towards the top end of the current range of estimates outlined above.

Guatemalan oil production, 1993–2012E (bopd)



Source: Invest in Guatemala, CIA World Factbook

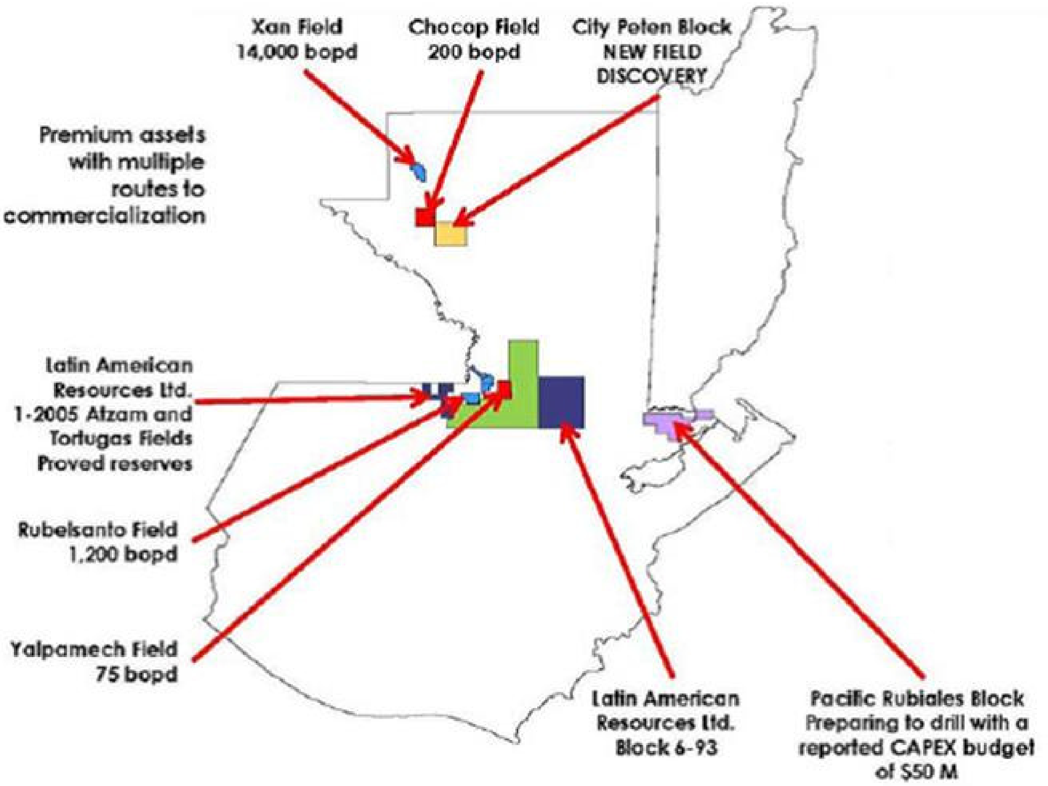
Major producing fields

Guatemala's main producing oilfield is the Perenco operated Xan field located in the North Peten Basin near the border with Mexico. Current output is approximately 11,500 bopd of 16° API oil from 34 wells. The reservoir is located at approximately 7,500 feet and all produced water is re-injected in order to boost secondary recovery from ten wells. Production from the Xan field is pumped via a 475km pipeline to the Piedras Negras oil terminal for export.

The same pipeline also connects the Empresa Petrolera del Itsmo-operated Rubelsanto field, located in central Guatemala. Rubelsanto is currently producing approximately 1,000 bopd of 22° API crude some 36 years after it was discovered in 1976. To date, the field is estimated to have produced more than 30 mmbbls of oil, equivalent to nearly one third of Guatemala's historical output.

Xan and Rubelsanto constitute most of Guatemala's oil production. However, other smaller fields including the Petro Energy S.A. operated Chocop field to the south of Xan and the Yalpemech field near Rubelsanto produce modest volumes (up to 275 bopd combined) of heavy 14° API crude.

Location of the Guatemala's primary oil fields



Source: Perenco, Ministry of Energy and Mines

Fiscal environment

The Guatemalan government operates a royalty structured around the API gravity of oil produced. The state take is fixed at 20% at 30° API oil and increases by 1% for every additional 1° of gravity. Likewise, the royalty decreases by 1% for every degree below 20° of gravity to a floor of 5%. Therefore, the state royalty for 34° API oil from the Atzam field would be 24%.

The state also imposes a tax on the net production which equates to production minus royalties and all recoverable costs inclusive of capital, exploration and development, operating and administrative expenses as approved by the MEM. The state participation is outlined below indicating that for field production less than 20,000 bopd, the state take is 30%.

Guatemalan state participation

State participation (%)	Production (bopd)
30	1 - 20,000
35	20,001 - 30,000
40	30,001 - 40,000
45	40,001 - 50,000
50	50,001 - 60,000
55	60,001 - 70,000
60	70,001 - 80,000
65	80,001 - 90,000
90	90,001 and above

Source: Invest in Guatemala

Attractive net backs

Considering that the MEM enables operators to recover most of their operating expenses, the fiscal terms in Guatemala are very attractive equating to estimated net backs per barrel of approximately $45 assuming an oil price of $80 per barrel.

Range enters Guatemala

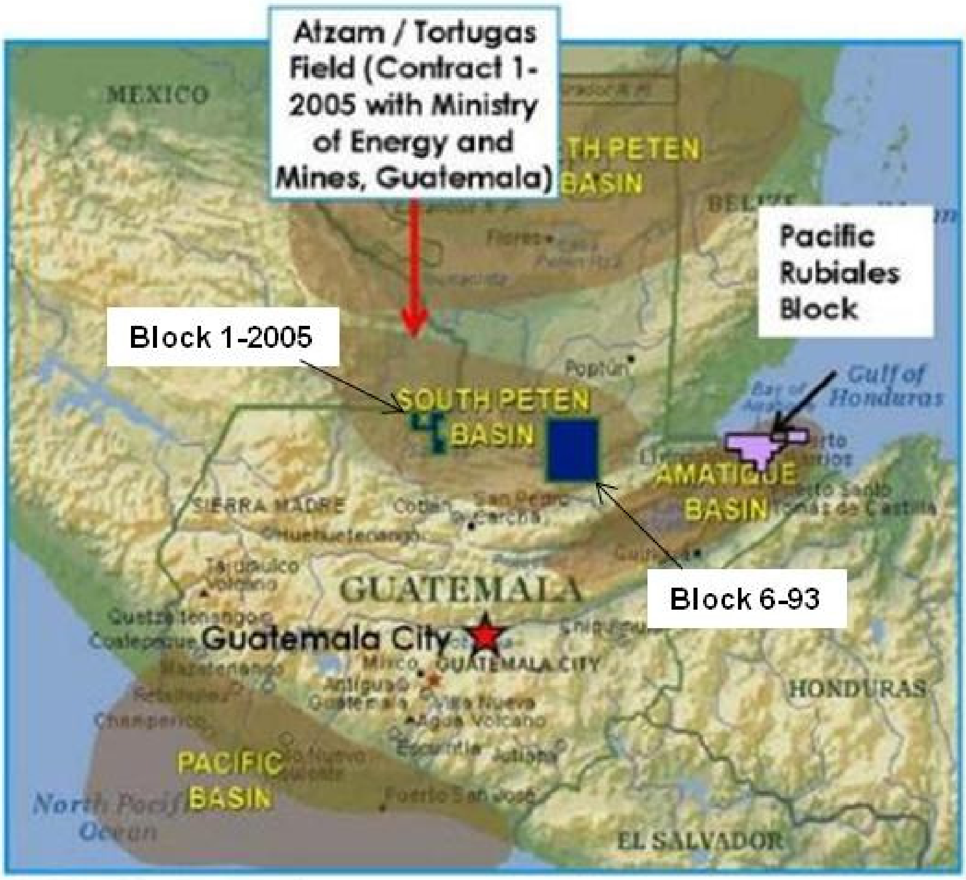
Strategic interest in Citation Resources (CTR)

On 25 January 2013, Range secured an interest of 19.9% in ASX-listed Citation Resources (CTR). CTR's core asset is the farm-in rights to acquire a 70% interest in private company, Latin American Resources (LAR) which holds an 80-100% interest in Blocks 1-2005 and 6-93 in the South Peten Basin in Guatemala. LAR's final interest is undetermined at present as it is dependent on the participating interest taken up by partners on future wells.

Additional to this, Range acquired a direct 10% equity interest in LAR implying a total indirect interest to Range of between 21.14% and 23.93% in the Guatemalan projects.

The LAR operated acreage is outlined on the map below in dark blue in central Guatemala. In the wider context, Block 1-2005 in particular is located in close proximity to the Rubelsanto field, which is believed to be a similar structure to the Atzam field and has produced over 30 mmbbls since its discovery in 1976.

Location map of LAR acreage (in dark blue) and Guatemalan hydrocarbon basins



Source: Citation Resources

Terms of the deal

To effect the transaction, Range converted existing debt funding of approximately A$2.0m, previously provided to CTR, into CTR shares at A$0.02 (current price A$0.022) with a 1 for 2 free attaching listed CTR option (A$0.04, June 2015).

Range also placed 40m new shares with CTR nominees at A$0.05 per share (a premium to the Range share price at the time of the deal) along with 40m unlisted options (A$0.05, 31 January 2016), in order to raise A$2.0m to acquire a direct 10% interest in LAR. This equates to a total acquisition fee of A$4.0m.

We believe that this is a very good deal for Range given that it will be finance carried throughout the initial US$25m of expenditure on the project in relation to its $2.0m payment for its 10% interest in LAR. This reduces Range's exposure to upfront expenditure in the higher capex stages ahead of production.

Low entry cost

Range has acquired an indirect interest in a very promising development opportunity for a gross acquisition price equivalent of between US$7.27 and US$8.23 per barrel. If one nets off current market value of the CTR shares of A$2.2m and excludes the options as they are currently out of the money, Range has gained access to reserves in Guatemala for as little as US$4 per barrel. However, for our valuation rationale, we are treating the CTR debt for equity conversion part of the transaction as broadly neutral for Range and we believe that the acquisition cost of approximately US$8 per barrel is representative of the deal.

NB: For the purposes of our calculations we have assumed an US dollar/Australian dollar conversion rate of 1:1.

Block 1-2005

Blocks 1-2005 and 6-93 are located in the South Peten Basin located in central Guatemala and have TSX certified 51-101 proved plus probable (2P) reserves of 2.3 mmbbls. This equates to between 486,000 and 550,000 barrels of oil net to Range with significant additional exploration upside. LAR owns the drilling and operational infrastructure on the blocks in much the same way as Range owns its Trinidad infrastructure.

The Atzam field

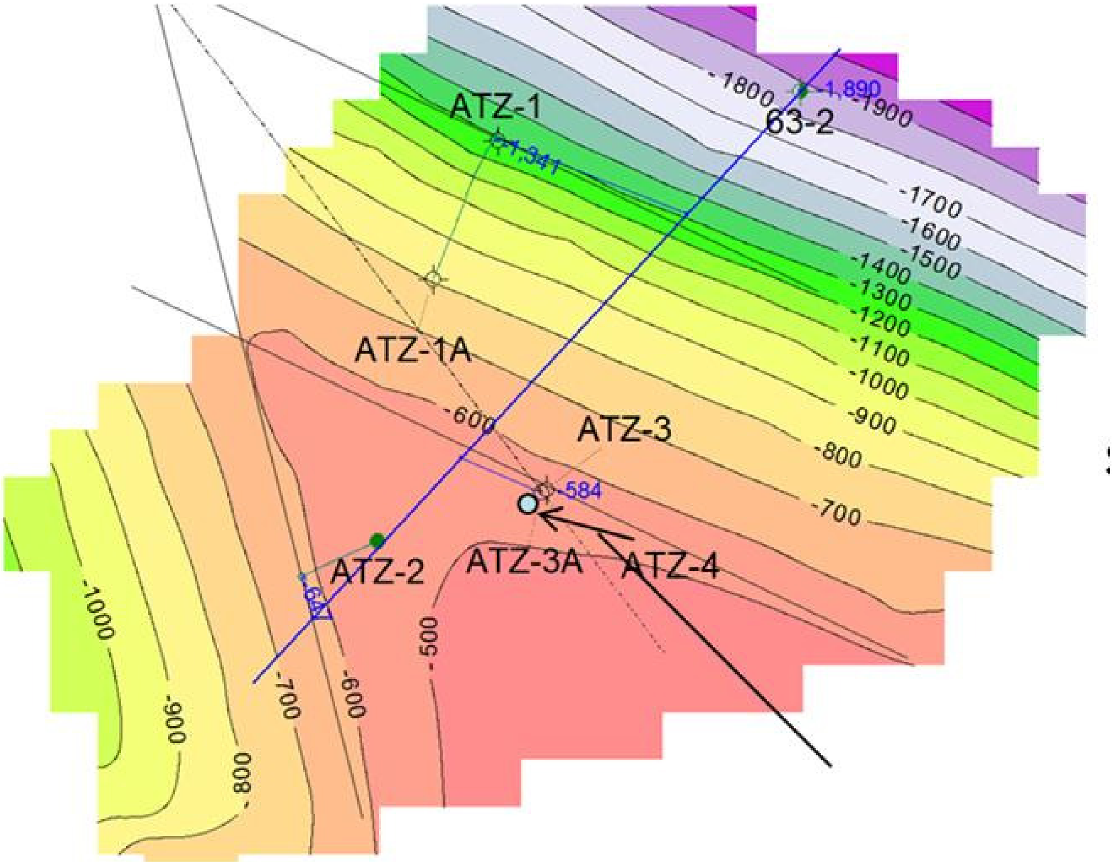
Block 1-2005 has had significant previous exploration activity and a two well appraisal programme is currently underway on the Atzam field. The Atzam #4 well, which spudded in late June 2012, has been completed at a depth of 4,500 feet and flow testing is currently underway. LAR now plans to spud Atzam #5 in February following completion of these activities. A previous well on the same structure; Atzam #2, tested up to 1,200 bopd of 34° API at a depth of 3,850 feet. We estimate that such wells cost up to $3.5m each to drill and complete.

Recent mapping incorporating historical reservoir data from previous operators of the acreage in addition to the MEM has indicated that the Atzam structure is comparable in size and orientation to the Rubelsanto field located to the east. However, at present we are basing our assumptions on considerably more modest volumes of reserves at Atzam.

The producing formation in the Atzam accumulation is the C-17 horizon which the current appraisal programme is targeting. LAR believes that its current geological interpretation supports a development of up to 10 well locations with potential field production of 5,000 bopd. The current flow testing of Atzam #4 and the drilling of Atzam #5 will go a significant way to confirming whether this potential is justified.

We expect that as part of a field development at Atzam, up to two additional wells could be drilled over the next two years in order to create a four well development project.

Atzam structure and well locations to date



Source: Latin America Resources

Tortugas field development

In addition to the Atzam field, Block 1-2005 also contains the Tortugas structure which is a suspended oil field located in very close proximity to Atzam. Originally, some 17 wells were drilled on a salt dome structure by Monsanto which was looking for sulphur deposits. However, one well, T9B, had a oil blowout at c.2,200 feet and most of the others had oil shows in the well bores. Two wells on the structure have flowed at initial rates in excess of 1,500 bopd although both were suspended in the 1980s.

LAR has identified at least six additional well locations on Tortugas and has promulgated that field production could be as much as 3,000 bopd from new and reactivated wells. Early work is likely to focus on the recompletion of the 63-4 and 63-5 wells and the upgrading of existing facilities on site. We believe that up to four additional development wells could be drilled in 2014 at an individual well cost of up to $2.3m each. This work is factored into CTR's capex plans for the block.

Investment to date

Over $18m has been invested into the Guatemala projects to date. This includes over $3m worth of tubular and equipment for development well drilling. On site there is also a treatment and storage facility with 3,000 barrels capacity, a field camp and kitchen with 100-man capacity and a working air strip for access. CTR's plan to invest a further $25m is anticipated to be sufficient to ensure that production could reach 1,000 bopd within three years.

Block 6-93: Las Casas field

Block 6-93 contains the Las Casas field which LAR drilled in 2012. In particular, LAR plans to re-enter and workover the 3X well which tested 150 bopd of 40° API oil and c.100 bopd of water in a lower productive zone. LAR currently has plans to perforate an additional shallower zone and co-mingle output with oil from the deeper horizon later in the current year. We believe that spending on this part of the Guatemala project could be at least $2.5m.

Value of Guatemala projects to Range

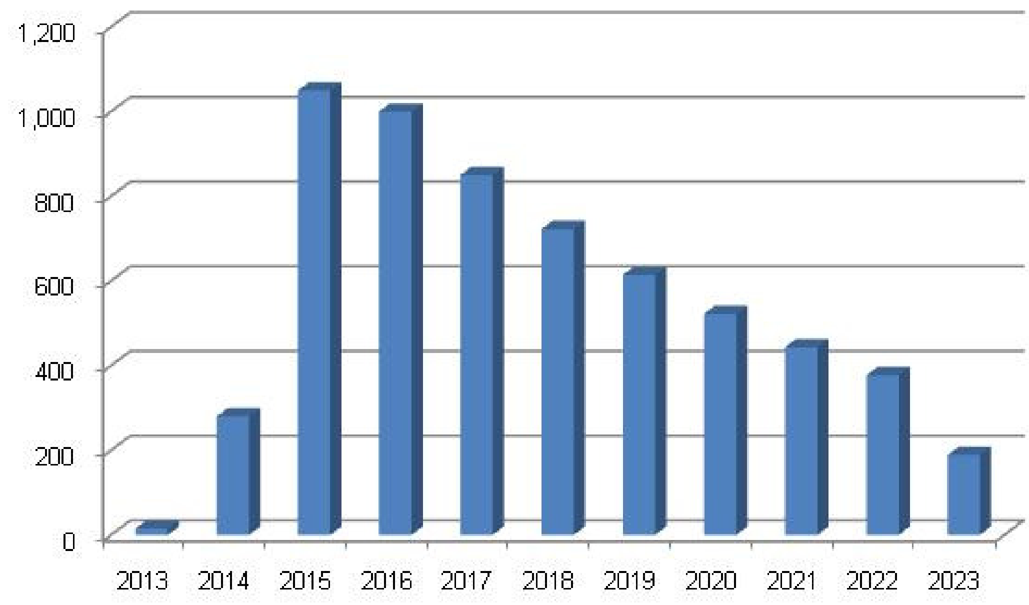
Our valuation of Range's indirect interest in the Guatemalan projects is highly indicative at this stage given that CTR has yet to exercise its farm in rights to acquire 70% of LAR and CTR will also be required to complete a substantial fund raising in order to expedite the long term development of the projects.

In addition, the extent of the information available with regards to specific drilling programmes and operating costs in addition to the apportionment of reserves between the assets is comparatively sparse at this early stage.

Production assumptions

For our preliminary valuation of Range's indirect interest in the Guatemala projects we have made a number of assumptions. Primarily, we have assumed that the project as it stands constitutes the development and production of most of the stated 2P reserve of 2.3 mmbbls. Our indicative production profile is outlined below and suggests that production peaks at over 1,000 bopd and declines at approximately 15% per annum until abandonment some ten years later. We have not apportioned our production between the individual fields at this stage as the distribution of the reserves between the assets is not known to us.

Guatemala gross production profile (bopd)



Source: OPL estimates

Expenditure assumptions

Within our calculations, we assume that gross capex is approximately $25.2m which includes $2.0m for abandonment costs in 2023. Within our expenditure budget, we have assumed remaining costs outstanding for the completion of Atzam #4, up to $3.5m each for the drilling of Atzam #5 and an additional exploration/appraisal well on the structure.

Our valuation also factors in two workover wells on Tortugas as outlined earlier for $0.5m each and up to four additional development wells on the structure at $2.3m each. These should cost less than the Atzam wells given that the anticipated producing formations on Tortugas are shallower structures.

Operating expenditure

Within our analysis, we have assumed a fixed operating cost of $1.5m per annum for the facilities at the Tortugas camp which include an airstrip, storage facilities and a fully manned field camp and kitchen for 50 people. Although highly indicative at this stage, we have also factored in variable operating costs of $10.00 per barrel across the board.

Other key assumptions

In line with the fiscal terms as outlined earlier, we have factored in a 24% royalty to reflect the likelihood of the production of 34° API oil. This will of course be variable should oil of differing gravity be produced from various structures.

Although our usual WTI oil price assumption throughout all OPL research is currently $85 per barrel, we have elected to use a more conservative level of $80 constant at this stage to mitigate the potential for discounted pricing in regards to heavier oil production.

Given that our oil production forecast is below 20,000 bopd at peak production, we have applied a state participation rate of 30% of net production in accordance with the current legislation in Guatemala.

Indicative valuation

Given the impact of cost recovery within the fiscal regime in Guatemala, we can confirm from the collation of our assumptions outlined above that net backs are at least $45 per barrel to the operator on an $80 oil price. On an NPV 10 basis, we have therefore valued the Guatemalan projects at $62.1m (gross) at this stage which equates to a highly attractive $28 per barrel of 2P reserves across the assets.

Range's indirect interest of between 21.1% and 23.9%, dependent on the participating interest taken up by partners on future wells, is consequently valued at $13.1m - $14.9m. We believe that this base case valuation represents very attractive upside to Range's initial investment of A$4m (assuming that the A$2.0m debt conversion to CTR equity is neutral to Range). Bear in mind Range's 10% interest in LAR will be finance carried and repaid out of Range's share of future production.

Range also issued 40m options at A$0.05 to CTR as part of the transaction. However, given that their exercise would accrue A$2.0m to Range and our valuation assumptions are based on Range's fully diluted equity, we have not included their market value in the transaction cost.

Target price implications

As outlined previously, the current uncertainties relating to the Guatemalan project are CTR exercising not its farm-in option or failing to secure the necessary funding. As such, we feel it appropriate to ascribe a very cautious 50% commercial risk factor to our valuation in relation to its impact on our share price target for Range.

Based on our calculation of Range's fully diluted equity of 2,663.4 million shares, we are ascribing a preliminary valuation of 0.15p per share assuming the lower indirect interest of 21.1% net to Range. This increases to 0.17p per share on the basis of a 23.9% interest.

Upon the confirmation of the early project milestones outlined above, we would look to remove the commercial risk factor as our NPV calculation already accounts for inherent operational risk within the projects.

Although our early pass does little to impact our overall target price for the company at this stage, it is appropriate to note that the project valuation is currently based on a very modest reserve base of only 2.3 mmbbls gross and further successful drilling over the next two years is likely to increase the 2P reserve markedly given the Atzam field's indicated similarities to the considerably larger Rubelsanto field in the adjacent acreage. Upon these upgrades, we would adjust our target price accordingly.

DISCLOSURES AND RISK WARNING

The recommendation system used for this research is as follows. We expect the indicated target price relative to the FT All Share Index to be achieved within 12 months on the date of this publication. A 'Hold' indicates expected performance relative to this index of +/-10%, a 'Buy' indicates expected outperformance of >10% and a 'Sell' indicates underperformance of >10%.

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