

# Oil & Gas Weekly

26 March, 2017

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Vol 10 /17

WTI ended the week down US\$0.81 to end at US\$47.97 a barrel; Brent closed at US\$50.80 down US\$0.96.

Start of Mth	Oil WTI*	Gas (US)**
July 14	105.74	4.41
Sept	95.96	4.07
Oct	89.74	4.04
Nov	80.54	3.87
Dec	66.15	4.09
Jan 15	52.69	3.00
Feb	47.66	2.69
March	49.76	2.73
April	48.14	2.71
May	59.15	2.76
June	60.32	2.64
July	55.52	2.77
Aug	47.12	2.72
Sept	44.79	2.65
Oct	45.54	2.45
Nov	46.61	2.32
Dec	41.71	2.21
Jan 16	37.56	2.29
19 Jan	26.19	2.05
Feb	33.62	2.30
March	32.78	1.79
April	36.79	1.96
May	45.92	2.18
June	49.33	2.17
July	45.41	2.82
Aug	41.80	2.77
Sept	43.03	2.95
Oct	48.24	2.91
Nov	48.70	2.79
Dec	51.68	3.46
Jan 17	53.90	3.76
Feb	53.14	3.39
Mar	53.33	2.83
Now	47.97	3.08

\*US\$, \*\*MMBtu in US\$.

US natural gas rose 13 cents to US\$3.08 an MMBtu

## Oil prices

Oil prices remain subdued with WTI spending a bit of time below US\$48.00 a barrel for the first time this year.

OPEC and non-OPEC representatives are meeting this weekend in Kuwait to review compliance with the agreed production cuts and discuss the future. If compliance is as high as many of the participants say it is, why have oil prices fallen?

US production and higher output from OPEC renegades Iran, Libya and occasionally Nigeria, when rebels aren't busy blowing up pipelines, have together offset whatever less barrels Russia, Saudi Arabia and friends have been putting into the market.

In the US this past week, commercial crude inventories increased by 5 million barrels partly offset by a 2.8 million barrel draw in total motor gasoline inventories and 1.9 million decrease in distillates. US production grew another 20,000 barrels a day to 9.129 million barrels.

In the US producers pressed another 21 oil rigs into production last week. US activity shows no sign of slowing.

In Europe and Asia crude and refined product stocks are lower than they were a year ago leading some analysts to suggest the market is too preoccupied with US data in pushing a short term bearish narrative.

A Macquarie Bank representative interviewed on Seven's Weekend Sunrise program said Saturday he expected oil demand and supply to be in balance by the end of 2017 with prices at US\$55.00 to US\$57.00 a barrel. Well maybe!

According to a Bloomberg story also this weekend, Russian policy makers see prices closer to US\$40.00 a barrel than US\$60.00 in December.

What oil prices do later in the year depends on whether OPEC and its current non-OPEC partners agree to extend the production cuts agreed last December for another six months. A decision is not expected to be taken on an extension until May.

## Oil & Gas Stocks

Of the 122 oil and gas companies we now cover, fifteen of the 36 stocks that traded in any substantial volume and value last week ended Friday higher than where they began Monday. That was six less winners than reported the previous week. Seven stocks finished unchanged, one less than a week ago and fourteen stocks fell three more losers than the week before.

## Blue Chips

The blue chip stocks were mixed. **Woodside Petroleum** fell from \$31.54 to \$31.00. Santos was marginally lower down from \$3.73 to \$3.70. **Origin Energy** rose from \$6.66 to \$6.69 while **Oil Search** was a touch stronger, up from \$6.90 to \$7.00.

**The blue chips aside there is very little investor or punter interest in the oil and gas space.**

**Junior oilers can't compete for the speculative dollar with cobalt and cannabis plays.**

**Junior oilers looking to change activity include Azonto, Kairiki, Indus, Orca, Odyssey and Tamaska Oil & Gas.**

### *Cooper Basin Producers*

**Beach Energy** was a smidgin higher up from \$0.75 to \$0.755. **Senex Energy** edge was unchanged at \$0.33 still substantially down on the \$0.405 hit on 14 February. **Cooper Energy** retreated from \$0.405 to \$0.375.

### *State of the market for junior oilers*

As long as the oil price remains flat to lower the interest in our smaller ASX listed oil stocks will largely be on those junior oilers that are drilling potentially company making wells this year such as **Triangle Energy** and **Norwest Energy** with the upcoming Xanadu #1 well and on companies developing tight gas operations in Queensland.

That said the level of interest is relative. The amount of money being invested in the small oilers is piddling when compared to the speculative dollar chasing graphite, lithium and cobalt plays or more recently medical cannabis plays.

**Norwest Energy** for example was up this past week from \$0.003 to \$0.005 but on negligible volume. While 6 million shares traded on Monday might seem a lot the value of the trades was just shy of \$25,000. Compare that with the nearly \$7 million traded on **Queensland Bauxite** on Monday a company that recently morphed into a dodgy medical cannabis counter.

Or what about **Stemcell United**. Its share price ran from 1.3 cents on 13 March to \$1.085 two days later before closing this past week at \$0.19. All the company did was to appoint Nevil Schoenmakers as a Strategic Adviser to pursue opportunities in the medical cannabis sector.

There are a number of junior oilers seeking to branch out into other fields of activity and we would have to say to their credit most of them have avoided chasing the immediate speculative dollar by becoming dodgy cobalt or cannabis plays.

Just in case they change their minds here are several companies that are looking for opportunities beyond the oil and gas space:

**Azonto Petroleum**. Last we heard this cashed up junior with some \$6.4 million in the kick was continuing due diligence on new business development opportunities. One of a few companies looking for a new field of activity whose shares are still trading.

Another is **Odyssey Energy**, it stays trading because it has an acreage position with gas rights in Kentucky in the US. But it claims to be in the market for a new business. The company is currently seeking to raise \$10.92 million via an Entitlement Issue of new shares at 5.0 cents.

Chartered accountants and well known company promoters Ian Middlemas and Mark Pearce run **Odyssey**.

Then there is **Interpose Holdings** the former **Sunbird Energy** that sold the Ibhubesi project in South Africa. The company acquired a small 7.5% working interest in the Gallatin gas/condensate project in the East Texas Basin in January which enable it to stay trading. **Interpose** says it intends to stay in the oil and gas business but that may change.

**Tamaska Oil & Gas** also trades given its interest in small projects in Louisiana and Texas. It had \$ 2.1 million in cash at 31 December. In its latest quarterly t confirmed it was evaluating new business opportunities.

Alex Parks is the Managing Director of **Tamaska** a long way from former high profile positions with **Cue Energy** and **Otto Energy**. He is also on the Board of another less than successful outfit **Sun Resources**.

<p><b>Armour Energy, Comet Ridge, Blue Energy and Icon Energy all higher.</b></p>	<p>Others seeking new business opportunities but who have had trading in their shares suspended include <b>Kairiki Energy</b> which last we heard was buying a coking coal asset and <b>Indus Energy</b> which is back looking for a new opportunity after the putative purchase of <b>IMD Gold</b> failed to pass due diligence hurdles.</p> <p>The Greg Bandy led <b>Orca Energy</b> has \$4 million in the bank and is continuing due diligence on a number of opportunities. Jason Bontempo is on the Board of <b>Orca</b>. Bontempo has been involved with a number of somewhat iffy resource plays including the recently anointed cobalt play <b>Equator Resources</b> where he is an Executive Director.</p> <p><i>Winners</i></p> <p>Several Queensland based companies developing gas plays that could eventually result in commercial gas being sold into the east coast market either for domestic or export use saw some activity on the bourse this past week.</p> <p><b>Armour Energy</b> rose from 8.6 cents to 10.0 cents on moderate volume after trading as high as 11.0 cents on Thursday. <b>Armour</b> is developing the Kincora Project in the Surat Basin that it bought from <b>Santos</b> late last year. It has already executed a Gas Sales Agreement with APLNG for the supply of 1.8 Pj a year over five years from Kincora. Production is expected to ramp up later this year and early 2018.</p> <p>Mark Carnegie's company <b>M H Carnegie &amp; Co</b> has agreed to subscribe for up to \$18.25 million of Convertible Notes as part of a new debt financing program <b>Bizzell Capital Partners Pty Ltd</b> is managing for <b>Armour</b>. Stephen Bizzell is on the Board of <b>Armour</b>.</p> <p><b>Comet Ridge</b> has a coal seam gas project at Mahalo with a pilot now in production. <b>Comet Ridge</b> also has yet to be extensively explored permits in the Galilee Basin. <b>Comet Ridge</b> was up from 9.5 to 10.5 cents.</p> <p><b>Blue Energy</b> which also has extensive permits throughout Queensland but no current production or drilling activity. This John Ellice-Flint led company claims 3,000 Pj of "gas resource" which if my knowledge of the definitions is correct is a quantity of gas that has been estimated to be present on its leases but has yet to be discovered!</p> <p><b>Blue Energy</b> up from 4.4 to 4.8 cents.</p> <p><b>Icon Energy</b> was also higher possibly because it is a Queensland based company with some permits in Queensland Basins and the Cooper Basins and has some cash. <b>Icon</b> up from 3.1 cents to 3.4 cents on light volume.</p>
<p><b>Sundance Energy slightly stronger.</b></p> <p><b>Gains for Triangle Energy.</b></p>	<p><b>Sundance Energy</b> was higher this past week up from 12.0 cents to 13.0 cents on pretty good volume suggesting there may have been a positive broker or tip sheet report out on the company that we didn't see.</p> <p><b>Sundance Energy's</b> high level of debt some US\$192 million and its negative operating cash flow has always made us wonder why the stock has been so popular with brokers and investors. The company now operates in the Eagle Ford Shale. It has made its money in the past from successfully and very profitably flipping assets. Perhaps the market is expecting it to do the same again following in the footsteps of <b>Aurora Oil &amp; Gas</b>.</p> <p><b>Triangle Energy</b> was also higher up from 3.6 cents to 4.0 cents albeit on very light volume. But that only suggests that more positive news from the company that attracts investor interest could see further significant gains in the share price. The company only has 146.8 million shares on issue.</p>

**Cooper Basin tiddlers chasing unconventional gas not attracting the same support as their cousins in Queensland's Bowen, Surat and Galilee Basins.**

**Strike Energy and Real Energy both weaker.**

**Sino Gas losing support.**

**Shareholders in Xstate Resources wonder where the money is.**

### *Losers*

While the Queensland based companies we mentioned earlier with tight gas projects seem to be attracting support the same can't be said for two tiddlers with operations in the Cooper Basin.

The Mark Carnegie led **Strike Energy** was down this past week falling from 9.0 cents to 8.4 cents. And the Scott Brown run **Real Energy** fell from 5.0 cents to 4.5 cents.

Both operations seem beset by technological challenges that they are struggling to overcome. Should they manage to produce substantial flows of unconventional gas the costs may well prove to be prohibitive even for a high priced domestic market.

In **Real Energy's** case we understand CEO Scott Brown is also involved with a number of other resource companies. We tend not to look favourably on CEOs and MDs who spread their time between a number of different entities. We like our CEOs to be 100% committed to the company they run.

**Sino Gas Energy** fell this past week from 9.8 cents to 9.2 cents and looks likely to continue to come under selling pressure. As readers of the OGW will know from our comments in past issues, doing business in China when you don't have the muscle of a large foreign entity to protect you, can be an existential challenge!

Last year **Xstate Resources** announced Melbourne based **Sanston Securities** had arranged a \$25 million equity injection for the company from a group of Indonesian investors that would enable it to make a significant asset purchase in the Los Angeles Basin in California.

The shares were to be issued at 3.8 cents a hefty premium to the 1.8 cents **Xstate's** shares were then trading at.

Then the funding ran into problems that **Xstate** first attributed to regulatory issues with the Indonesian authorities and then bank transfer delays.

In February **Xstate** announced it was in possession of international transfer confirmation of funds totalling approximately A\$19.3 million from the investors or 77% of their total commitment. **Xstate** didn't exactly say the money was in their bank account.

**Xstate's** share price has waxed and waned depending on the tenor of announcements concerning the availability of the funds - as high as 2.3 cents on 16 March but as low as 1.4 cents last Friday when over 8 million shares traded in a vote of no-confidence. There has been update on the situation **from Xstate** since 1 March, a long time to remain silent with so much at stake.

For **Xstate** it is not only a question of the Los Angeles Basin asset purchase that is at stake but also the company's ability to fund its 21% share of the Alvares #2 well on the Alvares Gas Prospect which it shares with partner **Sacgasco Limited** scheduled to spud in April.

That well is expected to cost US\$10 million and funding was recently secured with a farm out of a 10% interest in the well to unlisted company John Begg's **Bombora Natural Energy Pty Ltd** itself under an all scrip takeover bid from **Magnum Gas & Power**.

But as far as we can tell **Bombora** now **Magnum** has yet to raise the money to meet its farm in commitments which in addition to the Alvares well include a new deal on the Tulainyo Project also in California. Probably no wonder that investors in **Xstate** decided to head for the exits late last week.

<p>Otto granted extension to allow drilling in H2 2017.</p> <p>Melbana Energy will need a farmin partner to drill Beehive #1.</p> <p>Melbana suggests Pukatea potentially transformational. To spud Q3/Q4 2017.</p> <p>3 D Oil's Flanagan prospect in offshore Otway Basin drill ready.</p> <p>Ironbark a major target in Carnarvon Basin.</p> <p>Dempsey and Alvares prospects in California. Farm out discussions result in initial farminee.</p> <p>88 Energy's Icewine #2 on Alaska's North Slope to spud April, 2017. Rig on site.</p> <p>Petrel Energy to drill four wells in Q2 2017. Rig shipment commenced.</p> <p>Xanadu to spud in 2H 2017 now fully funded.</p>	<p><i>Update on Potential Company Making Wells</i></p> <p>The following wells could be game changing for the companies involved.</p> <table border="1"> <tr> <td data-bbox="523 276 759 458"> <p><b>Kito #1</b> SWE 25% OEL 25% TATA 25%</p> </td> <td data-bbox="759 276 1549 458"> <p>Rescheduled for September 2017. 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<p>Antelope #7 in PRL 15 in PNG at 2,773 metres and run liner.</p>	<p><i>Current Wells - Progress Reports and Results</i></p> <p><b>Total</b> 40.13%, <b>InterOil</b> 35.54% and <b>Oil Search</b> 22.83% spudded the Antelope #7 well in PRL 15 in Papua New Guinea on 2 November.</p> <p>The well is testing the western flank of the field for reservoir presence and definition. It is located 1.4 km west south-west of Antelope #5.</p>																		

<p><b>Muruk 1 ST#1 in PPL 402 at 3,577 metres and drilling ahead.</b></p> <p><b>Santos participating in Barossa #5 appraisal well in Bonaparte Basin.</b></p> <p><b>Senex and Beach enjoy success with Hoplite #1</b></p> <p><b>Beach brings in gas well Mokam1 #1.</b></p> <p><b>Austin Exploration's flow test of Magellan #1 returns 98 bopd. No recent updates.</b></p> <p><b>Real Energy testing Tamarama #1 well.</b></p> <p><b>Cue Energy spuds Naga Selatan #2 well in Indonesia.</b></p>	<p>On 13 March at 2,773 metres and run 7 inch liner. The well reached its current reported depth without evidence of intersecting the Antelope reservoir. The forward plan is to acquire vertical seismic profiles prior to coring and drilling ahead in a 6 inch hole to a provisional total depth of 3,000 metres.</p> <p><b>Oil Search</b> 37.5%, <b>ExxonMobil</b> 42.5% and <b>Santos</b> 20% spudded the Muruk #1 well in PPL402 in PNG on 2 November. The well is located 12 km north east of Juha #1. On 28 December the JV announced a significant gas discovery in the Toro Sandstone. On 28 February the side tracked well was at 3,577 metres and the operator was drilling ahead. The side track is to delineate hydrocarbon-water contact and test down dip. No recent update.</p> <p>On 16 January, <b>ConocoPhillips</b>, the <b>SK Group</b> and <b>Santos</b> spudded the Barossa #5 well in permit NT-RL-5 some 4.5 kms NW of Barossa #1 which flowed 30 MMbtu of gas and 240 bblsd of condensate on test in November 2006. No recent update.</p> <p><b>Senex Energy</b> (57%) and <b>Beach Energy</b> (43%) have completed the Hoplite #1 well in PEL182 after encountering good oil shows in the Birkhead Formation with logs indicating gross pay of 17 metres. At last report a drill stem test was underway.</p> <p><b>Beach Energy</b> (100%) has drilled the Mokami #1 in PRL 151 in the Cooper Basin intersecting three pay zones with multiple drill stem tests underway.</p> <p><b>Austin Exploration</b> is drilling a set of three wells back to back on its Pathfinder property in Colorado. The verticals with their accompanying lateral sections have all been drilled. The Magellan #1 was the first to be flow tested returning a flow rate of 98 bopd. On 1 December, its last drilling report, <b>Austin</b> said strong gas flows continued at its Marco Polo and Columbus wells.</p> <p><b>Austin</b> recently had yet another capital raising which the company said completed its fundraising activities to finance the acquisition of an additional 2,436 acres of the Florence oilfield from <b>Incremental Oil &amp; Gas</b>. That deal has now been executed.</p> <p><b>Real Energy</b> is continuing to test its Tamarama #1 well in the Cooper Basin reporting that the well was continuing to free flow frac fluid with almost 100% of the fluid recovered. The company will continue flowing the well over the next 90 days. <b>Real Energy's</b> shares have halved since August last year reflecting disappointment with the slow progress at Tamarama #1. Selling by substantial shareholder US based Och-Ziff Holdings has put pressure on Real's share price.</p> <p>On 7 January, <b>Cue Energy Resources</b> spudded the Naga Selatan #2 exploration well within the Mahakam Hilir PSC (<b>Cue</b> 100% and operator) in the Kutai Basin, East Kalimantan, Indonesia. The well was designed to test a prospect on the Pelarang Anticline an elongated 100kms long NNE-SSW structure containing existing oil and gas fields. In its December quarterly report <b>Cue</b> said analysis of the discovery at Naga Selatan #2 was ongoing. It did not give any other details.</p>
<p><b>Byron Energy expands its GOM footprint.</b></p>	<p><i>Asset Acquisitions</i></p> <p>The US Bureau of Ocean Energy Management (BOEM) has advised <b>Byron Energy</b> that it was the apparent high bidder on four leases at the Central Gulf of Mexico OCS Lease Sale 247 held on Wednesday March 22. <b>Byron</b> said that the four leases, South Marsh Island Area Blocks 57 and 59, South Marsh Island Area South Addition Block 74 and Vermilion Area Block 232, were in the vicinity of the South Marsh #71 oil project currently under development.</p>

	<p>An apparent high bid is subject to an adequacy review and under the BOEM rules may be rejected if deemed inadequate.</p> <p><b>Byron</b> drilled the Byron South Marsh 71 #1 well in May 2016 intersecting four hydrocarbon saturated sands over a total gross interval of 151 feet. Byron has 50% of the project Otto Energy 50%. <b>Byron</b> hopes to have first production from the D5 sand via a <b>Byron</b> operated manned platform by the end of 2017.</p>
<p><b>MEC Resources seeking \$2.8 million with issue at 2.8 cents.</b></p> <p><b>Lakes Oil cap raising falls well short.</b></p>	<p><i>Capital Raisings</i></p> <p>On 14 March, <b>MEC Resources</b> announced an equity raising of up to \$2.8 million before costs via a pro rata one for two non-renounceable rights issue at 2.8 cents a new share. The issue is not underwritten.</p> <p><b>MEC</b> said the funds would be used primarily to provide funding to <b>Advent Energy Limited</b> one of <b>MEC's</b> investee companies, for the acquisition of 2D seismic in PEP 11 in the offshore Sydney Basin.</p> <p><b>Lakes Oil's</b> bid for \$12.6 million in fresh equity via a rights issue at \$0.002 has fallen well short with shareholders applying for just \$684,000 worth of shares. <b>DGR Global</b> as partial underwriter will kick in another \$816,000.</p> <p>Just what <b>Lakes</b> will do now given the substantial shortfall and the lack of funds to undertake exploration of its new tenements in Queensland and South Australia remains to be disclosed.</p> <p>The company now has 22,420,227,519 shares on issue. The Nick Mathers run <b>Dark Horse Resources Limited</b> is now the largest shareholder with 42.15%.</p>
<p><b>Pura Vida sacks CEO Damon Neaves.</b></p>	<p><i>Executive Movements</i></p> <p>On Thursday <b>Pura Vida</b> announced the termination of the employment of CEO Damon Neaves effectively immediately. The company's shares were suspended from trading on the ASX on 17 March following the failure to lodge its half yearly accounts.</p>

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