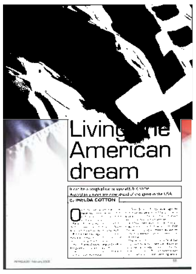

Living the American dream

Petroleum
February, 2008
Page: 59
General News
Region: National Circulation: 6000
Type: Magazines Trade
Size: 700.00 sq.cms
Monthly

Living the American dream

It can be a tough place to operate, but some Australian juniors are now ahead of the game in the USA.

By **IMELDA COTTON**

Over the past decade, the United States has come to be seen as both a honeypot and moneypit for Australian juniors.

Plenty of companies have crossed the Pacific to seek their fortunes in North America, but few have been truly successful.

But the tide has begun to turn. Several Australian newcomers to the US are now experiencing significant successes.

Marion Energy, Odyssey Energy and Redfork Energy are all building strong portfolios in oil, conventional gas and coal seam methane in Oklahoma and other states.

In Texas, Burleson Energy has brought the first three gas wells in its Champions Area program into production and at last report was drilling ahead on the fourth well.

And Texon Petroleum has made three gas finds in the three first wells in its 2008 shallow drilling program; these finds have yet to be fully assessed but look likely to be commercial.

Meanwhile in Louisiana, Pryme Oil & Gas has proved its ability to select good acreage by on-selling its 433-hectare Condor gas project to oil major BP for a substantial cash payment while retaining an overriding royalty.

Ref: 00034678202

Copyright Agency Limited (CAL) licensed copy

Petroleum spoke to three executives of successful juniors that began operating in the US only in the last few years, to find out what enables some companies to succeed in the US while others fail.

Salinas Energy managing director John Begg, Strike Oil managing director Simon Ashton and Target Energy managing director Laurence Roe agreed that companies moving into the US needed patience, an eye for a good deal, good local knowledge and partners they could trust.

They agree that operating in the US offers petroleum juniors a greater potential for company-making discoveries than working Australian acreage does.

California dreaming

Take Salinas for example, which made the move to California just two years ago when the company's market capitalisation was at a modest $30 million.

Today, with its flagship North San Ardo project having produced first oil in December and a busy schedule of activities planned for 2008, including drilling additional development wells around the field to increase oil production and cash flow, the company is sitting pretty with a market cap of $90 million.

Managing director John Begg says a sound business plan and a strong team are needed to deal with the often intense levels of competition present in the US.

"This is a very competitive industry and as the oil price increases, I have no doubt it will get more difficult to find and develop the right opportunities," he said.

Salinas's entry into California's San Joaquin and Salinas basins came through personal contacts with good local knowledge. Once Begg had assessed the opportunities, he moved quickly.

"Having an experienced partner is essential"

"We got into California fairly early as far as Australian companies go and we probably have more business opportunities in front of us than we can cope with, which is a great position to be in," he said.

From the start, Salinas set a goal of becoming a producer within two years.

"We had a production target of 1000 barrels a day which we have already met and we are now after a second target of 2000 barrels a day.

"Our primary goal beyond that is 20 million barrels of net reserves by the end of 2008."

Much of the company's activities this year will be directed at boosting reserves and improving its production and cash flow, which are already strong, according to Begg.

"I think probably what differentiates us from the rest is that we have built a cashflow and reserves base very quickly which insures us against any difficult business or market cycles," he said.

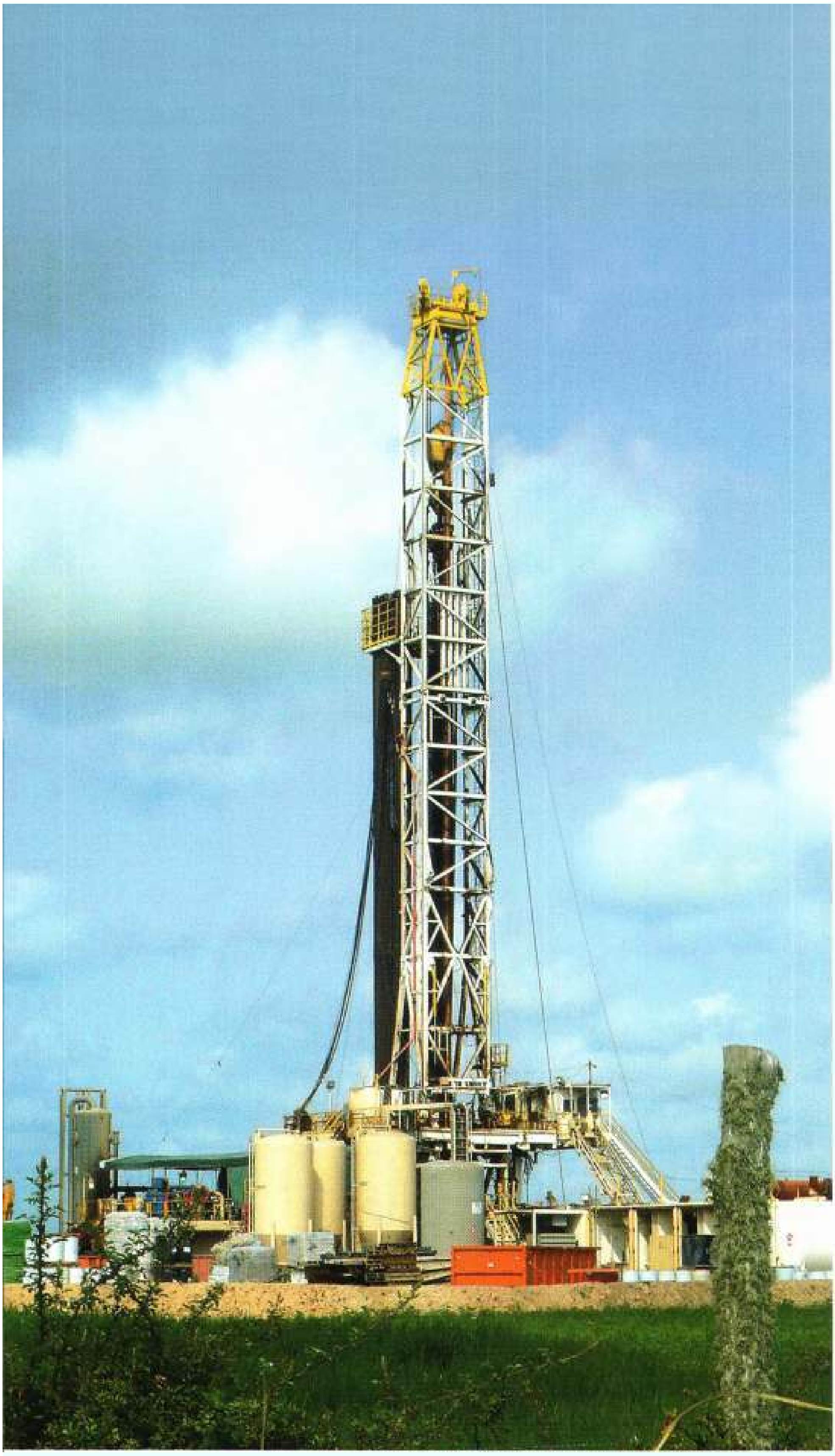
"And we are demonstrating our capability to grow and take on bigger things – we have very good prospects of increasing the scale of our projects over the next 12 months."

On Target

Also winning on a tough playing field is Target Energy, which began working the onshore Gulf Coast in 2006 and this month brought its Snapper gas discovery well in Louisiana's St Martin Parish into production. The Snapper A-2 well is producing 1.3 million cubic feet of gas and around 27 barrels of oil per day.

Since listing last year, the company has

Copyright Agency Limited (CAL) licensed copy



Strike Oil's Duncan-1 well

Copyright Agency Limited (CAL) licensed copy

MEDIA MONITORS
INCISIVE INSIGHT

Petroleum
February, 2008
Page: 59
General News
Region: National Circulation: 6000
Type: Magazines Trade
Size: 700.00 sq.cms
Monthly

made four consecutive oil and gas discoveries in the US, with all wells now in production and generating a consistent stream of income. Only two years after listing, Target now has a positive cash flow.

"If you network with the right people, you can get very good opportunities"

Despite an influx of companies into onshore Gulf Coast exploration where improved technologies are showing that it can be economical to search for big plays, managing director Laurence Roe said the increased congestion in the marketplace has not hurt the junior's chances of finding good quality deals.

In 2007 alone, Target evaluated 189 different prospects – "a level of opportunity you cannot get in Australia" – from which four were selected for further investigation, proving that skill is needed to separate the wheat from the chaff.

"Some prospects do not work because of cost, others because of timing and some because of both," Roe said.

"The key is to be able to identify what is technically and commercially feasible and to move very quickly on opportunities you do like.

"We try to be focused and rigorous in our

A rig at Target Energy's Teche prospect in Louisiana

Ref: 00034678202

Copyright Agency Limited (CAL) licensed copy

selection and so far that has worked for us in terms of our early success."

Keen to capitalise on this success, Target recently announced it will take a 15% working interest in the Catapult-3 gas-condensate prospect, operated by Houston's Legend Petroleum and which Roe believes may well become a "genuine company maker".

Drilling of the prospect, in Louisiana's Vermilion Parish, is due to start mid-year and will target up to 204 billion cubic feet of gas and 10.2 million barrels of recoverable condensate.

"It is a relatively high-risk, high-reward opportunity compared to some of our earlier acquisitions," Roe said.

"It is adjacent to two recently drilled wells that tested with combined rates of 40 million cubic feet of gas and 2300 barrels of condensate per day."

Roe said he expected further exploration success.

"We are confident we have the right territory, an appropriate level of equity exposure and the right partners."

Target has partnerships with three US companies – Everest Resource, Cypress Productions and the multi-billion dollar Pogo Producing Company.

"As a junior, you need to be able to spread your risk and work with different operators in different areas," Roe said.

"You need to be aligned with companies that have a good reputation and good track record, so you can leverage off their expertise rather than compete against it.

"You need to be aligned with companies that have a good reputation and track record"

"Competent and experienced partner companies can also help with access to good acreage, which can be tricky to get hold of as an Australian junior because of the complexity of the US leasing system."

Lucky Strike

Securing a reputable partner company and consolidating an active presence on the ground can make a foray into the US. Failing to do so can doom it, Strike's Simon Ashton said.

"You need to be working with very competent operators who know the local lie of the land, particularly along the onshore Gulf Coast which is probably the most competitive area in the country," he said.

In 2005, Strike chose to partner with Cypress Exploration & Production Corporation in its Texas prospects, having previously worked with the company in the early 1990s.

At the time, Strike said the strategic alliance would allow it to accelerate its drilling program and access high-quality projects underpinned by continuing high US energy prices and the prospect of near-term cash flow.

"Having an experienced local partner is essential to our competitive position," Ashton said.

"It is a very crowded market but if you can network with the right type of people, you can still get very good opportunities."

The partners are now onto their fourth well together at the Rayburn gas/condensate project in Wharton County, Texas.

"We are extremely pleased with the progress," Ashton said.

"Since Duncan-1 came into production in December for example, it has been flowing at a steady rate of around 10 million cubic feet of gas per day and 260 barrels of condensate.

Copyright Agency Limited (CAL) licensed copy

Salinas Energy's North San Ardo project

Copyright Agency Limited (CAL) licensed copy

"When we first started in the US, I would not have thought we would be seeing such large potential projects in such close proximity to very mature producing areas.

"We really are onto a company-making opportunity, thanks to the work we are doing at Rayburn with Cypress."

Partners and personnel

Roe agreed that being able to trust your partners makes a big difference.

"Not knowing them as well as you should can be a potential thorn in your side," he said.

"It can lead to misunderstandings over operating arrangements and even cost blowouts."

Target intentionally does not acquire operating stakes in any of its projects.

"We look for partner companies that are experienced in their local sectors because they are extremely capable of running the show and we like to get leverage from that expertise," he said.

Begg disagrees on this point. Salinas prefers to be in the driver's seat every time.

"We find that a controlling interest in our partnered projects helps overcome any potential issues," Begg said.

"One of the classic problems for a small company in any part of the world is maintaining alignment of your goals and objectives with your partners.

"Generally speaking, when smaller companies get into joint venture with larger companies, at some point their strategic goals for the asset they are involved with change and that creates conflict every time.

"We are managing that risk by acquiring large interests and being the operator – the one in charge for directing the course of how the asset is exploited."

Getting good partners is only part of the battle. A company must also have good local knowledge on its own team, according to Begg.

"A team of people on the ground is very important for anyone trying to make it in the States," he said.

"It gives you potentially greater access and exposure to other projects and business development opportunities which would be difficult to identify from an office in Australia.

"We recently made two very senior appointments to our US office – very qualified people with a great deal of local knowledge who we expect will help drive our business even further."

But getting those people isn't always easy.

"Probably our biggest challenge of late has been the labour shortage," Begg said.

"We would like to be able to process new business opportunities much quicker than we can at the moment and that is largely a skills issue.

"Having enough people dedicated to managing our operations in line with our business plan and yet freeing enough of them up to evaluate and create new business opportunities has been a fine balance." P

Copyright Agency Limited (CAL) licensed copy