

GTL and helium hopeful sparks overseas interest

Monday, January 23, 2006

OVERSEAS investors, notably in Singapore, have reportedly become interested in aspiring outback explorer **Central Petroleum Ltd as the company's IPO enters its final week. By RICK WILKINSON**



There is growing confidence that the company will be able to fulfil its initial exploration program in **central** Australia's Pedirka and Amadeus Basins this year and that, with added support from overseas, it may get back on track with its original capital raising goal.

Central dropped its minimum subscription from A\$15 million to A\$9.5 million late last year in a bid to ensure the listing process went ahead by mid-February.

The company also obtained underwriting for the revised amount from Sydney broker Martin Place Securities. Previously that firm had simply been lead manager and sponsoring broker to the share issue.

The maximum amount of capital sought in the IPO remains at \$25 million.

Central's management, led by chairman Henry Askin (a former Shell Australia exploration manager and a current director of Bass Strait Oil Company) and managing director John Heugh (an experienced exploration consultant), say the \$9.5 million figure will let the company drill one of two oil prospects already delineated in the Pedirka Basin followed by another prospect in the western Amadeus Basin.

The Amadeus prospect will require additional seismic before selection of a well location. Seismic will also be run in three other Amadeus permits to firm up drilling locations.

If the IPO raises the additional funds of up to \$25 million, the company will be able to drill at least six wells over the next two years, including two in the Pedirka and four in the Amadeus.

Part of **Central's** initial difficulties in raising funds last year may be attributed to the perception that the Amadeus contains much older, tighter and less producible reservoirs than those that have flowed prolifically in Bass Strait, North West Shelf and the Cooper.

There is also a sense that the Amadeus has been well explored and that few, if any, viable traps remain undrilled. In other words, the main discoveries – Mereenie and Palm Valley – were made 40 years ago and there is unlikely to be incremental development potential.

But **Central** is offering much more than a few one-dimensional exploration hits. There is broad potential in the company's portfolio, not just in a geological sense, but also in its business plan.

The company's total acreage covers 165,000 square kilometres in four basins, all of which are under explored. One, the Wiso Basin, has never been drilled or looked at in any detail for petroleum potential.

That total area equates to roughly the same land area of Syria or, closer to home, two-and-a-half times the size of Tasmania.

While size isn't everything, the Wiso has room for a diverse range of play types and opportunities.

In the Amadeus Basin, the two major discoveries and five non-commercial finds have come from only 37 exploration wells drilled in the last four decades. That's one well per 5000 square kilometres.

In the past the wells have been placed using a combination of surface geological mapping, gravity data and some seismic.

But the 2D seismic has been widely spaced and often poorly located, giving rise to off-structure drilling locations on 13 occasions. Even so, six of the 13 delivered significant oil and gas shows, giving an indication of the size of structures and untapped potential.

The previous drilling does indicate that the eastern Amadeus is gas prone and the basin becomes more oil-prone in the western sector.

Central's Johnstone prospect in permit application EPA115 lies west of the Mereenie oil field. The structure requires additional seismic to firm up a drilling location, but existing data indicates a robust closure of 55 square kilometres with the Ordovician Pacoota Sandstone target reservoir about 1800m below surface.

Several other undrilled structures of similar size and larger have been identified in this same area.

For most companies, oil is an acceptable find anywhere. But it is **Central's** attitude to the gas potential of the eastern Amadeus that makes its program unique.

The company has two unconventional goals – a commercial helium discovery and the establishment of a gas-to-liquids plant.

Helium has already been discovered in the Amadeus by the Magee-1 wildcat. The reservoir, known as the Heavitree Quartzite, contains 6.2% helium mixed with a number of inert gases including 43.6% nitrogen. Methane content is around 39%.

The high helium percentage is significant. In Russia, Poland and New Mexico, amounts down to 0.3% helium are produced commercially.

A successful helium play first needs a reservoir and trap sitting close to a radioactive basement source. Because helium is very mobile, the reservoir should also be overlain by a very efficient 'plastic' seal.

At Magee the Heavitree Quartzite sits close to basement and the effective seal is provided by a salt layer called the Gillen Member. But the reservoir at this location is thin.

Central has found what it believes to be a similar set of circumstances in the much larger Mt Kitty prospect further to the south. With helium currently fetching US\$50-60 a thousand cubic feet, 100 billion cubic feet of recoverable reserves (6% of a total potential 1.7 TCF gas discovery in the structure) would be worth \$US5 billion.

BOC Global Helium and **Central** Petroleum have already signed a memorandum of Understanding to work towards an exploration and appraisal program. But more seismic is needed to confirm the prospect and select a drilling location.

Central's geologists are also keen to revisit the Ooraminna natural gas find made right back in 1963 with the first well drilled in the Amadeus, and also the Waterhouse prospect which found gas with an off-structure well in the 1970s.

In this case, instead of sending gas by pipeline to be used as electricity generation fuel, some or all of a successful find could be used as feedstock for a GTL plant located either at the field or in nearby Alice Springs.

The rationale is that pipeline gas attracts a buying price of A\$3-4 dollars a gigajoule, whereas gas turned into liquids such as diesel could be sold for \$16 at current fuel prices using an equivalent unit conversion.

Central believes it would need a recoverable reserve of at least 200 billion cubic feet of gas to develop a commercial GTL plant. Liquid fuel could be easily sent to city markets via the rail link between Adelaide and Darwin.

Given a successful IPO and ASX listing, **Central** would first go to its Pedirka Basin permit EP93 to drill either the Avalon or Blamore prospects, which have multiple Mesozoic and Permian reservoir objectives.

Currently there is a farm-in arrangement with White Sands Petroleum for

supply of a drilling rig, but **Central** is also looking for a contingency rig should the White Sands unit not be ready in time.

The Amadeus program would follow the Pedirka projects. Work in the greenfields Wiso and Georgina Basins would come still later.

But the new company's first hurdle is a successful conclusion to its IPO.