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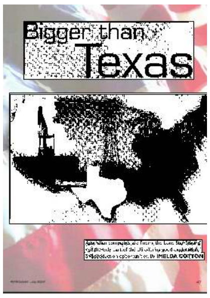
Bigger than Texas

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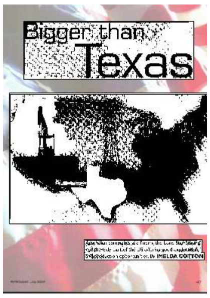
Bigger than Texas

Australian companies are finding the Lone Star State is not the only part of the US offering good exploration and production opportunities. By IMELDA COTTON



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Texas is synonymous with US oil and gas. But the state's favourable geology, good infrastructure and strong petroleum business culture have also produced a congested and competitive hydrocarbons industry, and many Australian juniors are preferring to operate in other parts of the US or to maintain both Texan and other American assets.

The USA's other states contain a wide range of petroleum opportunities from blue-sky to brownfield. *Petroleum* does a quick tour from west to east.

The West Coast

Eighteen months after its first hydrocarbons investment, Perth-based Salinas Energy is expecting to commission its first project at the North San Ardo field in Monterey County, California later this year.

"We drilled four wells at North San Ardo, all with substantial oil columns," managing director John Begg said from the company's offices in Ojai, California.

"We production-tested them and got results beyond our expectations."

The move to California was carefully planned by Begg, who used to run Voyager Energy, which merged in 2005 with Arc Energy.

"It was not a case of putting up the world map and selecting a destination," he said.

"The opportunity came through personal contacts and we decided it had enough merit to proceed. I only had two criteria – to acquire large quantities in the acreage and to be an operator, not a partner."

California has languished in recent times compared to Texas, according to Begg.

"The exploration and exploitation of opportunities here has dropped off notably and we used that to our advantage," he said.

"Consequently, we have found the competition for acreage here has been less than in other US states."

Salinas is pursuing heavy and light oil projects in conventional sandstone reservoirs and in a low-cost, onshore environment. Begg argues this offers more opportunities than Texas and the Gulf Coast region, where companies generally aim to find relatively small reserves, mostly of gas, that can be quickly commercialised.

"The trouble with that approach is you have to keep it and you need repeated high levels of drilling success to make it work," he said.

"California is more oil-reserves driven and while we are in the process of establishing a healthy early cash flow of around $20 million a year from our first production project, we will also continue to target prospects that come in with a bang and transform our company."

Salinas made a commitment early on to establish an operating team in California, according to Begg.

"It has given us control over our projects, helped us get the equipment we need when we need it, and allowed us to build credibility with people on the ground," he said.

"We are now considered one of the emerging niche operators in California and people are prepared to bring their deals to us and talk business."

Further north up the west coast, Comet Ridge has carved a niche in a proven but underexplored part of southwest Washington State, securing two major prospects.

According to Comet, with a modelled reserve of 140 billion cubic feet, the Vader/Cedar Creek coal seam methane and conventional gas play (Comet 40%) could add as much as A75c to the company's share price, while the 100 billion cubic feet Grays Harbor conventional gas play could add as much as $A1.61 because Comet holds 100% in the acreage. In a recent report, broker Tolhurst Noall agreed that Grays Harbor had "massive upside potential" for Comet.

Managing director Andy Lydyard said the company's main driver was the opportunity to control large acreage positions with relatively low royalty burdens.

"We've found parts of the Pacific Northwest and the Rockies can offer explorers the chance to lock up large land positions with low entry cost," he said.

"We search mainly for existing but overlooked hydrocarbon systems where the presence of oil and gas has been proven in the past.

"We also like proximity to infrastructure as it ties in with the potential to secure large positions through innovative dealings with large landowners."

According to its latest quarterly report, Comet has encountered heavy competition from a rival US exploration company for leases around Cedar Creek, giving weight to Lydyard's strategy of striking while the iron is hot.

"We aim to be the 'first mover' wherever possible but sometimes that lead can be short and the competition in our areas of operation is very strong," he said.

Rocky Mountain high

In addition to its Pacific Northwest acreage, Comet is also carving out a position in the Rocky Mountains state of Colorado where once again the company has sought out an existing but underworked petroleum system.

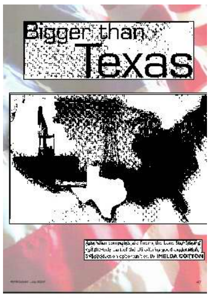
"We like to build a lease position over old producing areas," Lydyard said.

"Many of the older fields are virtually abandoned but we like to think there is more oil to be produced."

In Colorado, Comet is using directional drilling techniques and 3D seismic to assess whether the previous operators of its Tow Creek/Bear River and Florence oil fields have missed any production opportunities.

Lydyard said wells drilled into these broken and fractured oil shales can be very prolific producers.

"Almost all wells drilled on Florence and Tow Creek were drilled vertically – our concept is that many more fractures can be intersected with deviated wells and, by imaging the fractures using 3D seismic, we can orient the wells optimally," he said.



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Comet and its Australian partner, Strike Oil, have almost finished shooting 13 square kilometres of 3D seismic over a significant part of the Florence project area that overlaps a smaller survey shot by its US partners in 2004.

Comet plans to use the directional drilling capability developed at Tow Creek to redevelop the field, which has produced about 15 million barrels of oil in its 144-year history.

Other companies are now being attracted by the locality and the development plan. Not far away, another group of Australian juniors – Victoria Petroleum, Adelaide Energy and Fall River Resources – are working on the West Florence prospect.

At Florence, Comet is targeting 1.5 million barrels of oil, while 3.3MMbbl is on the cards at Tow Creek/Bear River.

Despite cost overruns, early drilling results from this project have been encouraging for production, according to Lydyard.

"There were some frustrating operational issues that have precluded completing the Coal View Unit well, but all of the data we have gathered suggests that we have found what we were looking for – oil filled fractures and lots of them," he said.

"We plan to sidetrack the well in the [northern] summer and complete it for production."

Immediately north of Colorado, the state of Wyoming has been subject to technology plays since oil prices recovered from their historic slump.

By the time Australian junior Elk Petroleum listed in 2005, the Wyoming revival had opened up a host of opportunities in fields that had gone through a primary production phase and suited secondary recovery mechanisms such as enhanced oil recovery, according to chief executive Rick Wood.

The focus of Elk's maiden acquisition was the onshore Grieve oil field.

"The company-maker in Grieve is a carbon dioxide-enhanced oil recovery project, with virgin production from the sands above the muddy sandstone which will be subject to the CO_2 flood," he said.

"The other opportunity is shallow exploration potential within the region and we are currently establishing an acreage position around a known exploration play."

Like Begg, Wood and his colleagues entered their US acreage partly because of personal contacts.

He characterised the state as being a "niche market dependent on niche expertise" and said Wyoming offers many benefits for junior explorers.

"The state's regulatory regime is extremely supportive – the Wyoming Government goes to great lengths to encourage oil exploration and development," Wood said.

"Historically, it is a major producer and there are commercial opportunities for aggressive companies wanting to build on the significant upside of the fields using modern technology, which can add barrels to your reserves and value to your shareholders.

"And Wyoming is not difficult for a junior to enter – the industry has a tremendously robust and accessible material support base and an array of best-in-class technical services.

"Furthermore, the Wyoming Oil and Gas Commission has a database which I believe is equal to none – every well drilled in the state since 1978 is on it and it is easy to get information on any field that has been active since.

"Our intention is to continue the focus there, combining best-in-class technologies with our technical expertise based on Rocky Mountains plays."

Louisiana and the Gulf of Mexico

In a much warmer part of the US, several Australian companies are operating in onshore Louisiana.

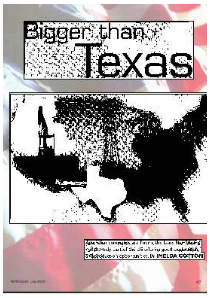
First Australian Resources has carved out a niche in the state's inshore waterways, where it has been joined by Sun Resources and Texas-focused Amadeus Energy.

Other companies have taken a leaf out of Amadeus' book and have acquired both Texas and Louisiana assets. These include two new players, Pryme Oil & Gas and Target Energy.

In its first year of operation, Pryme has focused almost exclusively on Louisiana.

"Louisiana is of primary importance to us because of the relatively shallow objectives and those oil and gas zones that extend to intermediate and greater depths," chairman John Dickinson said.

"The region offers us multiple drilling targets in and around the same acreage



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blocks, so lease acquisition and drilling costs can be spread over more than one objective.

"Finally, the areas we operate in generally have high flow rates, which reduces the cost of our production operations, whether expressed in terms that apply to natural gas or the production of oil."

Although the competition is fierce, Dickinson said it is the quality of local partnerships that ultimately takes successful Australian juniors across the line.

His own 32 years in US energy circles has helped Pryme develop robust relationships with established players along the Gulf Coast region.

"Our connections with other oil and gas producers have an exponential effect on our access to drilling opportunities," he said.

"The better oil and gas opportunities seldom leave their city of origin before they are taken up among this closely bound producer group. So to be a part of it is very beneficial to us and our shareholders.

"The things we look for in a good opportunity revolve around geological extensions of existing trends covering broad areas. We are after targets that are mostly of virgin reservoir pressure, possess high permeability and have ready access to markets."

Although Louisiana's geology is more complex than Texas, requiring more exacting geoscience in order to pinpoint drillable prospects, this doesn't faze Pryme or Target.

While Target's efforts are still in their infancy – the company listed just six months ago – managing director Laurence Roe already has many reasons to smile, not the least of which is a potential company-maker in Assumption Parish, Louisiana.

"Two of our three Texas wells have resulted in discoveries and we have also made a discovery [Snapper A-1 in St Martin Parish] at the first of our proposed five wells in Louisiana," Roe said.

"And we are looking forward to drilling the Berwyn prospect in Assumption Parish where we have a 10 percent interest with Pogo Producing Company. It is high risk, high reward and there is a substantial amount of gas and condensate up for grabs. It would be a company-maker even if we only recover one-third of what is there."

Gulf Coast geology is very conducive to finding oil and gas, according to Roe.

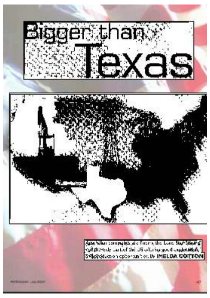
"There have been a raft of historical discoveries and still a lot more to be found," he said. "The deal flow that comes from that is quite strong."

Like Dickinson, Roe cautioned prospective players to plan carefully before making an entrance.

"If you do your homework, you can get into wells that have relatively low risk and any discoveries can be brought into production very quickly," he said.

"It's important to join up with good partners – people who are reputable and have a good technical understanding of the plays and prospects they are promoting and

A workover rig at Elk's Wyoming acreage



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drilling. There are a many, many deals here and it can be a minefield trying to filter through them all on your own.

"Target is very much a little fish in a big pond so we have well-established contacts who work with us to ensure the people we talk to are the ones we want to be involved with. Good prospects don't last long. You can't expect the deals to come to you – you have to go out looking for them and be able to act on them immediately."

Independent oil and gas producer Petsec Energy knows exactly what Roe is talking about, having spent over 15 years operating out of Louisiana. Petsec focuses on the Gulf of Mexico and is perhaps the most successful of all Australian companies operating in the US.

Unlike high-profile Australian majors Woodside Petroleum and BHP Billiton, Petsec concentrates on the shallow waters of the Gulf. Its success has spurred imitators, with Australian juniors Entek Energy, GulfX and Grand Gulf Energy (formerly Alto) now dipping their toes in the Gulf.

Petsec has 52 leases in the region and a prospect inventory of 290Bcf of gas and 30MMbbl of oil which it plans to explore between now and 2010.

Managing director Terry Fern said offshore Louisiana offered highly productive rocks.

"There has been good historical production and much more to be found," he said.

"There's a tremendous amount of infrastructure, sales pipelines, good rig availability, people with expertise and ready access to leases from the Government.

"The fiscal regime offshore is more reasonable compared to onshore, where the royalties are almost 10 percent higher because the acreage is privately owned. That said, the economic returns are similar because onshore infrastructure costs are lower."

The state's availability of leases is also attractive, according to Fern. In the shelf area offshore Louisiana, there are about 10,000 blocks of 5000 acres each, controlled by the Federal Government, and about 1000 come up for sale each year.

"Even with 140 registered players on the shelf, the chances of lease acquisition are good," he said.

In 2004, Petsec entered its first onshore venture at the 60,000 acre Moonshine prospect in Louisiana's St James Parish, in which it holds a 50% working interest and is the operator, and in May Petsec added another onshore project to its portfolio by acquiring an interest in a three-well drilling program in Terrebonne Parish.

"Moonshine has had no previous 3D seismic because it is largely covered by swamp and has been extremely difficult and expensive to access," Fern said.

"But those are the areas where you are likely to find things of quality and if the prospects turn out as we hope, they could quite significantly change the face of this company."

Chasing the American dream

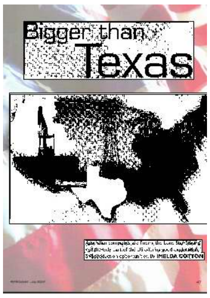
Comet Ridge's Andy Lydyard gives a tongue-in-cheek response when asked to give advice to Australian juniors looking to enter the US game.

"It's really tough, but a really great place to be," he said. "But we don't want any more competition."

Lydyard said there was room for all kinds of petroleum explorers and producers in this large and diverse country.

"If you are prepared to think outside of the box and move quickly, you can quite comfortably stake your claim." P

A Petsec production facility in the Gulf of Mexico



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A Salinas Energy well