

Developing a world-class petroleum setting

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EXCLUSIVELY focussed on the Cooper Basin, Drillsearch Energy is one of the largest net acreage holders there with 15 exploration tenements that cover 23,000sqkm.

The Cooper Basin spans from the northeast of South Australia into south-western Queensland, and has been a vital supplier of gas to the eastern states for more than 40 years. It delivers gas to SA, NSW, Queensland and Victoria through an extensive pipeline network, and has been identified as one of the most prospective places for developing new shale gas resources outside of North America by the US Department of Energy, Energy Information Administration (EIA). An EIA report released in April indicated that the Cooper Basin had about 85 trillion cubic feet of risked recoverable shale gas resources.

As an explorer and developer of both oil and gas, Drillsearch's spotlight on the Cooper Basin is fuelled by the view that it is highly prospective and represents a world-class petroleum setting.

In fact, according to reports, the Cooper Basin has been a significant provider to Australia's energy needs since the first gas discovery there in 1963. Despite this, the basin remains largely unexplored by industry standards, and advanced drilling and seismic analysis surveys have only been lightly applied.

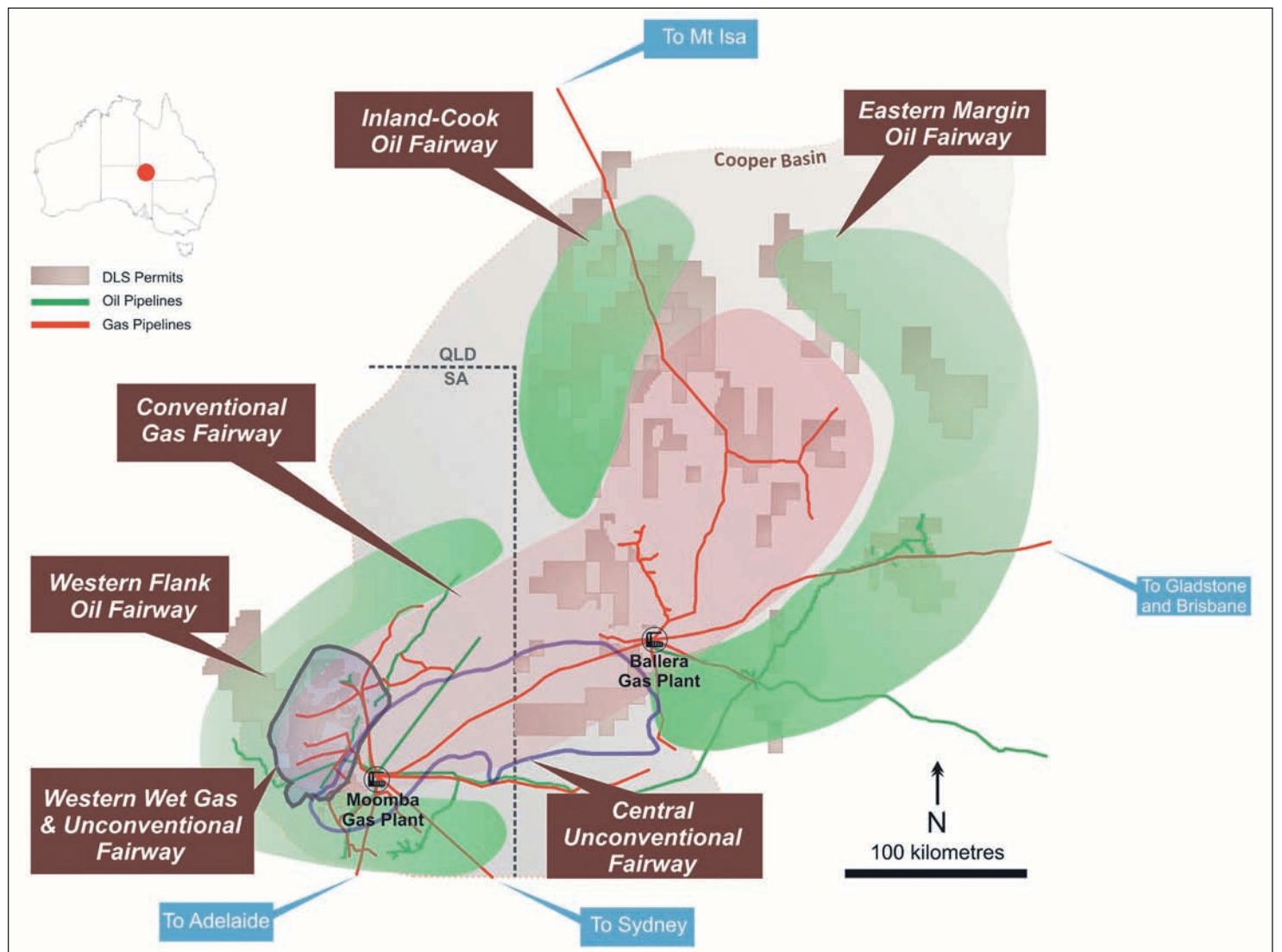
Oil and gas exploration success rates in the region have been high at more than 50 per cent and, due to the basin being onshore, drilling costs are low. Plus, there's ready access to equipment and infrastructure.

Drillsearch believes that the combination of these factors offers a compelling economic case for investing capital into exploration and development activities in the Cooper Basin. Indeed, based on the company's internal estimates, the payback period on investment is less than one year.

Exploration

Drillsearch has had almost 25 years of experience in the industry since it listed on the ASX in 1987. Managing director Brad Lingo said Drillsearch was focussing its activities in the Cooper Basin on three core growth trains.

"One is focussed on oil exploration,



Oil fairways of the Cooper Basin

development and production. That's primarily on the Western Flank Oil Fairway but also on the eastern margin of the Cooper Basin," Mr Lingo said.

"In the west we hold those oil assets in joint venture with Beach Energy, and we've just concluded a very successful five-well exploration campaign where we made four discoveries out of five wells."

The oil fields discovered – Bauer, Snellings, Hanson and Arno – are all in Petroleum Exploration Licence (PEL) 91 on the Western Flank Oil Fairway: a permit covering 1972sqkm and owned by Drillsearch with a 60 per cent interest, and Beach as operator

with the remaining 40 per cent.

The fifth well in the exploration campaign, Searcy, was drilled in August, but was plugged and abandoned after it was deemed not commercially viable.

Initially granted in 2002, PEL 91 was renewed in 2008 for another five-year period. However, due to prolonged periods of flooding in the Cooper Basin that began last year, Drillsearch received an extension of the permit and a new expiry date of June 2014.

Mr Lingo said the Bauer oil discovery looked to be one of the largest on the Western Flank of the Cooper Basin.

"The current estimate of mean recoverable

oil (gross) for Bauer is 3.5 million barrels of oil," he said.

Discovered in August with the drilling of the Bauer-1 exploration well, a 14.6-metre oil column was intersected in the McKinlay and Namur Sandstones' pay zones. Following this initial discovery, Bauer-4 was the first of three development wells to be drilled in the Bauer oil field in September.

"We've intersected a much thicker pay zone than we estimated pre-drill on Bauer-4, so in all likelihood the Bauer oil discovery may be getting larger," Mr Lingo said.

The 3m and 5.5m pay zone estimates for the McKinlay and Namur Sandstones in the Bauer oil field were exceeded by 6 to 7m, hitting a gross column of 17m with 14m of clean net pay in the Namur Sandstones.

Last month, Drillsearch successfully spudded Bauer-3, the second well in the development program. It was cased and suspended as a future production well after intersecting 10m of the McKinlay/Namur gross column with 3.5m of net pay in the Namur Sandstones.

Mr Lingo said that weather permitting, Drillsearch planned to move ahead in the next two to three months to get all four oil field discoveries (Bauer, Snellings, Hanson and Arno) developed and into production, along with building an oil pipeline from Bauer to the eastern side of Cooper Creek.

He said the pipeline would most likely run to the Lycium oil terminal, where the oil would then be able to be transported from Lycium to Moomba either by pipeline or by truck.

Conventional

The company's second big growth business is conventional wet gas from the western side of Moomba covering the south-western end of the Patchawarra Trough, where Mr Lingo said Drillsearch held "a very significant position".

The company owns and operates 100 per cent interests in PEL 106A and PELA 513. It also has a 50 per cent interest in PEL 106B,



Drilling activity at Snellings-1 in PEL 91

Photo – Drillsearch Energy

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with Beach holding the remaining interest. PEL 107 is owned by Drillsearch and Beach on a 60/40 basis.

Mr Lingo said Drillsearch had 10 wet gas discoveries in the 106A and 106B blocks, and was in the process of bringing the first two discoveries into production to develop and connect them into the South Australian Cooper Basin (SACB) joint venture – a Santos-operated pipeline system.

“Those first two fields that are being developed are the Middleton gas discovery and the Brownlow gas discovery, and then we’re looking at an add-on project to start the development of the Canunda gas discovery,” he said.

“What is really significant about those gas discoveries is that they’re wet gas, so as we produce natural gas we also produce hydrocarbon liquids in the form of condensate and LPG, and we get on average about 40 barrels of hydrocarbon liquids per million standard cubic feet of gas that we produce.”

The company’s initial production target for the Middleton and Brownlow gas discoveries into the SACB joint venture pipeline system is about 25mmcf per day of raw gas – a quantity that will generate about 1000bbl/day of hydrocarbon liquids, with Drillsearch earning a 50 per cent share of the sale price.

“The Canunda discovery, the other wet gas discovery, is a much more unusual beast in that it produces condensate at a rate of 180 to 200 barrels per million standard cubic feet, and we’re looking to develop that field and tie it into a second point in the Cooper Basin joint venture system and produce that at about 5 million [cubic feet] a day for another 1000 barrels a day of condensate. Again, 50 per cent of that goes to Drillsearch,” Mr Lingo said.

Unconventional

Drillsearch has completed a strategic joint venture worth \$130 million with QGC, a BG Group business. Having acquired a 60 per cent interest in Authority to Prospect (ATP) 940, QGC has committed to a five-year exploration program in the permit area to develop unconventional shale and tight gas resources, and will fund 90 per cent of the first \$100 million exploration costs.

“Our third growth business for Drillsearch is our unconventional projects in the Cooper Basin. We have two main unconventional projects – one is in the central Cooper [Basin] in the Nappamerri Shale Gas Fairway,” Mr Lingo said.

“We’re working ahead to start 3D seismic acquisition sometime next year. That’s the very first step in the block once we’ve completed all of our environmental and cultural heritage clearances.”

The company’s second unconventional



Crude oil separator at the Chiton oil field in the Cooper Basin

Photo – Drillsearch Energy

project also sits in the western Cooper Basin and in the same permit vicinity as the wet gas area.

“One of the advantages in that project area is as we do conventional exploration, development and production drilling in the wet gas fairway, we can also do unconventional exploration and appraisal. So that’s a very significant benefit that allows us to effectively kill two birds with one stone,” he said.

Drillsearch’s focus for the next year is to increase reserves, production and cash flow.

“With the delivery of the exploration success and the development activities that we’re undertaking in the Western Flank oil, and with the development activities that we’re undertaking in the wet gas fairway, we see a real opportunity to deliver that increase in production and increase in cash flows,” Mr Lingo said.

He added that the Cooper Basin had been the pre-eminent onshore oil and gas basin in Australia since the 1960s, and said he saw no reason why it would not continue that way well into the future.

“It’s an exciting year for Drillsearch, with a lot of activity and a lot of delivery in terms of increasing reserves, increasing production and increasing gas flow.”

Production

Drillsearch generates its production through an 11 per cent stake in the Tintaburra Joint Venture, where Santos holds the remaining 89 per cent.

The JV consists of numerous PELs, and the Chiton oil field, which is owned by Drillsearch and Beach Energy on a 60/40 basis and was discovered in August 2009.

The Chiton-1 well was the first commercial oil discovery in PEL 91.

Drillsearch stated that the Chiton oil field had a production facility capable of handling 7000bbls of fluids per day. The four oil fields discovered in PEL 91 were also likely to be processed there.

Flooding in Cooper Basin during 2010 and 2011 hampered the company’s production capacity by limiting the road access to the Chiton oil field.

Drillsearch anticipated that the floods would recede during the December quarter of 2011, and that production from the Chiton field would resume before the end of March next year.

Due to corrosion, the Tantanna to Moomba crude oil pipeline was shut down for repairs and was expected to be back in service in November 2011.

As stated by Drillsearch on its website, while the line was being repaired, PEL 91 crude production was being trucked to Moomba.

The company had scope to increase the size of the Chiton production facilities in the future, or to look at other alternatives.

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Casing at Snellings-1 drill site

Photo – Drillsearch Energy