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Technology lifts onshore oil & gas action

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BETTER TO COME: Jonathan Stewart says Aurora has been unfairly caught up in the sell-down of resources stocks. *Photo: Attila Csaszar*



[1]

Attachment

Size



[Onshore oil & gas stocks](#) [2] 195.18 KB

A diverse array of privately held and public-listed companies is angling to become the next success story in the onshore oil and gas sector.

[Craig Burton](#) [3] and [Charles Morgan](#) [4] made their first investment in unconventional gas in 2004, when they paid just \$US25 per acre for drilling rights over land in the Marcellus shale in Pennsylvania.

The price of acreage in that area has subsequently risen to about \$US10,000/acre, and in some instances has traded as high as \$US15,000/acre.

With spectacular returns like that, it's little wonder they are continuing to invest in the onshore oil and gas sector.

Mr Burton, who chairs [Verona Capital](#) [5], and Mr Morgan, now based in London, have extensive private holdings in the sector.

They have backing from [Macquarie Group](#) [6], which has a 30 per cent stake in their European company, [Hutton Energy](#) [7].

And the businessmen are also shareholders or directors in listed companies including [Transerv Energy](#) [8], Tamaska Oil & Gas and [Macro Energy](#) [9], which was recently recapitalised with backing from [Navitas](#) [10] founder [Rod Jones](#) [11].

Former [Nexus Energy](#) [12] director [Michael Fowler](#) [13] is another player in the sector, announcing this week the first transaction for his privately held company [Pathfinder Energy](#) [14].

The Pathfinder deal was part of a larger transaction under which listed company [New Standard Energy](#) [15] will broaden its interests in the sector, acquiring acreage in the Eagle Ford shale in Texas and the Cooper Basin in South Australia.

Veteran oil and gas dealmaker [Peter Allchurch](#) [16] is also active, recently striking a deal that involves listed company [TW Holdings](#) [17] buying a shale oil project he jointly owns in Texas.

TW plans to change its name to Beretta Oil & Gas upon completion of the deal, which is conditional on a \$12 million capital raising.

Fracking revolution

The New Standard and Beretta deals add to a string of transactions in a sector that has been revolutionised by 'fracking' technology.

Among Perth companies, the biggest winner by far has been Aurora Oil & Gas, which was an early investor in the Eagle Ford shale formation in Texas.

The Eagle Ford is at the centre of the onshore oil and gas boom in the US, with recent production rates of 600,000 barrels of oil equivalent per day.

There is a lot more to come, with the Texas Railroad Commission issuing 4,343 drilling permits in the Eagle Ford last year and 234 drilling rigs currently operating within the area.

For investors such as Mr Burton, the search is on for the next region to replicate this success.

"We find it hard to believe the fracking revolution in North America is not going to be replicated, to a certain extent, in other parts of the world," Mr Burton told Business News.

"What has surprised everyone is how slow it has been to roll out elsewhere."

For producers like Aurora, the challenge is to keep on delivering improved results, after 10 quarters of growth in production, revenue and underlying earnings.

"We're proud of what we have delivered," executive chairman [Jonathan Stewart](#) ^[18] said.

"We've got a really good project, we've de-risked it completely; in fact, we think the risk is to the upside."

Between venture capital investors like Mr Burton and established producers such as Aurora is an array of companies in Perth chasing opportunities in the sector.

The bigger players include [Red Fork Energy](#) ^[19], which has substantial operations in Oklahoma, and Sino Gas & Energy, which last month raised \$53 million to support its operations in China.

Closer to home, [Buru Energy](#) ^[20] has already discovered oil in the Canning Basin, inland from Broome, and is preparing for a major drilling program next year to try and unlock the region's gas potential.

Even closer to home is the Perth Basin, where local companies [Transerv Energy](#) ^[8], Empire Oil & Gas and [Norwest Energy](#) ^[21], along with Sydney company [AWE](#) ^[22], are planning drilling programs next year.

Environment worries

Hanging over the sector is community concern about the environmental impact of fracking, highlighted by the US documentary movie Gasland.

Like most players in the sector, Mr Burton has been affected by the environmental and regulatory backlash.

In particular, his plans for an extensive exploration program in Europe were brought to a halt by the moratorium that most European countries imposed on fracking.

He believes there is a lack of understanding about the different types of fracking.

"Fracking shales and tight sands generally doesn't work until you are about 2,000 metres deep; you need the pressure, and once you are two kilometres deep the track record is [that there have been] very few incidents," Mr Burton said.

The coal seam gas sector, which involves shallower fracking, is different.

"Where you have shallow fracking there are some risks; I don't think there has been a very clear distinction between shallow and deep fracking in the public debate," Mr Burton said.

He said the regulatory pendulum had swung back in the UK, which had lifted its moratorium after scientific studies.

"That is what happened in WA; they have done the science and said that with the right environmental safeguards, that fracking is fine," Mr Burton said.

Mr Burton hopes success in the UK will lead to regulatory changes in the rest of Europe, but in the meantime is focused on other opportunities.

He remains positive about Transerv's Warro project in the Perth Basin.

"We think Warro has got a really good chance of working; it produces lots of gas but it also produces a fair bit of water," Mr Burton told Business News.

The challenge for Transerv is to design wells that can handle the water and to locate wells where there will be less water flow.

He is even more positive about Transerv's Montney project in Canada, where it is targeting a condensate zone that has delivered good results for other companies.

"That's our most exciting play at the moment," he said.

Most exploration programs in the oil and gas sector are long and expensive, but an exception seems to be the drilling campaign currently under way at the Rend Lake oil prospect in Illinois.

Local company Tamaska Oil & Gas, which counts Mr Morgan as chairman and Mr Burton as a major shareholder, acquired a 20 per cent stake in the project in September.

That was after US company Anschutz Exploration Corporation ^[23] acquired a 50 per cent stake.

Tamaska chief executive Alex Parks ^[24] is enthused by the opportunities in the US.

"The permitting is quick, well costs are low, rig availability is great, and if you say you want to drill something, you can get the permits through and get drilling in three months," Mr Parks said.

He is even more enthused by the potential for Rend Lake to be a 'ten bagger' - an investment that would increase in value 10-fold.

"What we're looking for, essentially, is an underground cave system that we hope will be full of oil," Mr Parks said.

"This \$1.4 million well, in the event of success, we're targeting 60 million barrels of oil.

"That's not just a ten bagger, that would be a 50 bagger, and that's what investors are looking for in junior oil and gas companies, they really want to see you drill these high-impact wells."

Aurora progress

Aurora is planning an investor update next week, following this week's annual investor briefing by project operator Marathon Oil Corp ^[25].

Chairman Jonathan Stewart ^[18] expects the Marathon briefing will include a significant focus on the Eagle Ford shale.

"It's generally acknowledged that it's the most exciting part of their portfolio in terms of growth and delivery," Mr Stewart said.

"We will say exactly what means from an Aurora perspective and we will also talk about the acreage we operate ourselves."

Aurora enjoyed a spectacular share price run in 2010 but since then has fluctuated in a wide range.

Mr Stewart believes Aurora has been unfairly caught up in the sell-down of resources stocks.

"We are, if anything, ahead of schedule on development, we've got, if anything, price deflation on our capital programs, and the oil price has remained very strong," he said.

"We're trading at a material discount to similar companies in the US and Canada. No question that is a frustration to us at the current time."

Brokers that covering the stock agree it is undervalued at the current price around \$2.80 per share, though they diverge on just how much it is worth.

JPMorgan has a target price of just \$3.27 per share, Citi is a little more positive at \$3.66, CBA has a target price of \$4.20, while local broking house Euroz is far more upbeat, with a target price of \$5.00 per share.

Mr Stewart believes there has been a lot of progress over the past three years.

"We think Marathon and Aurora have been delivering steadily on growth in production, growth in revenue and earnings, improvement in wells, delivery of reserves, and reduction of costs," he said.

Aurora has major capex commitments - it is due to spend about \$500 million this year on its projects and Mr Stewart said capex in 2014 will be "slightly lower but won't be materially different".

That will require a further draw down on its debt facilities, before the company can start paying back its debt.

"We will turn the corner and start paying down debt by the end of 2014," Mr Stewart said.

Beyond then, he said, the company would be seeking to strike a balance between maintaining its growth, managing its balance sheet, including repayment of debt, and delivering returns to shareholders.

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