

Texas provides junior with full plate

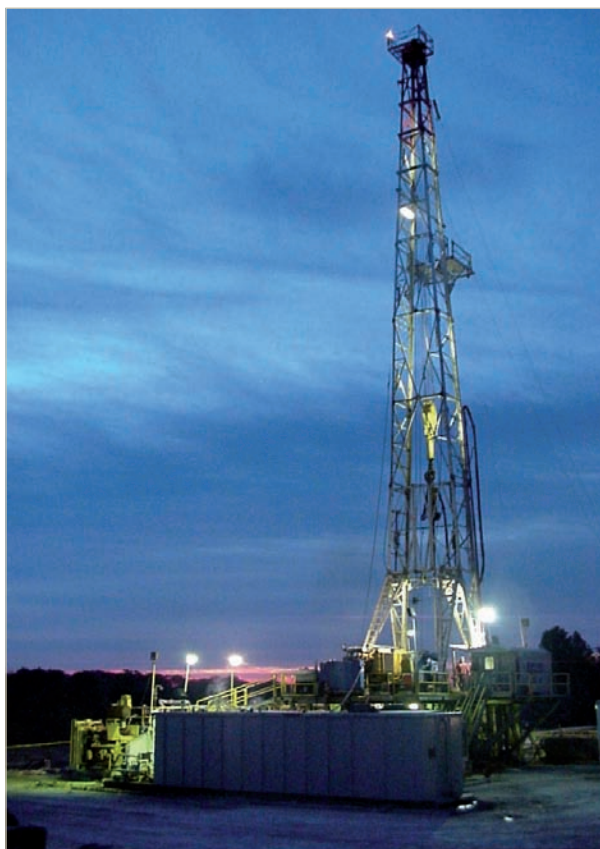
By Rebecca Le May

AUSTRALIAN COMPANIES PLANNING to enter the US oil and gas market without the assistance of an experienced local partner are facing an expensive uphill battle, according to Burleson Energy executive director Mike Sandy.

The company, which floated on the ASX early last year on the back of a planned two well program in Burleson County, Texas, subsequently added seven wells in Grimes, Montgomery and Brazos Counties to its 2007 infill development drilling program.

The projects will involve drilling wells into existing gas fields and include several areas of mutual interest (AMI). Burleson has entered into a participation agreement with well established Texas-based AKG Energy, owned by the Kugler family, under which Burleson will take a working interest of between 17.5% and 20% in the existing leases within the AMIs based on a 20% participation (funding) interest.

Within the Champions prospect in Grimes County, major US energy group Marathon Oil will maintain a 50% interest in the wells drilled by AKG, which, following completion, will hand over operatorship of production wells to Marathon.



▲ Burleson expects to drill several low-risk wells this year.

Seven wells

The cost to Burleson Energy for its participation in the drilling of the seven wells is US\$7.5 million. The company can participate in additional wells that may be drilled within the AMIs.

"These second round of projects came out of the blue through our relationship with the Kugler family ... and were too good to pass up," Sandy said.

"None of this would have been possible without the involvement of the Kuglers."

All up, Burleson has exposure to between 12 and 20 low risk wells, with three to four years of continuous drilling being a real possibility.

The company could find itself drilling an average of one well every two months, he said.

AKG, which holds a 20.6% stake in Burleson, has access to a drilling rig for up to two years (one year plus a one year option), but the rig has been delayed on a prior job, and Sandy said he now expected to start drilling one well in Burleson County by early February.

He said it would probably be followed by drilling a well at the Champions prospect.

"We'll maybe keep the rig at Champions for a while then come back and do the second Burleson well or get another rig in to drill the Burleson well.

"Onshore US in particular is highly competitive – you've got to know the land situation inside out – you've got to really know what you're doing to make a success.

"Any Australian company that thinks they can compete in the US scene is kidding themselves and that's why we haven't even pretended we are going to do that: we've just teamed up with a US company to operate our leases for us. Doing it without local expertise is a recipe for failure.

"We're not paying the hefty premiums that you would expect to pay for the wells. We're getting very easy terms ... and being shareholders in our company means they're very interested in our success."

Burleson has a 40% working interest in its foundation projects within the county after which it was named, where the targets tend to be shallow, small and cheap to drill.

"Typically, they will produce between 3-5 billion cubic feet of gas but the flow rates are probably around 2-5 million cubic feet of gas per day. Beyond two firm wells, there are up to 11 wells that can be drilled here, depending on success."

The junior has 17.5% WI in the other seven wells, where the wells are deeper, higher

pressure and "... tend to produce more", Sandy said.

"They are typically 4-5 bcf per well but some have produced over 15 bcf, which is a phenomenal amount of gas from one well, particularly a development well. We're not expecting levels that high but it wouldn't be impossible to get 8bcf out of one well.

"If we do the maths on that, with a gas price of US\$6, 8bcf would produce revenues of about US\$50 million for a well that has cost US\$4-5 million to drill."

He said the flow rates from the second set of projects could be very healthy, in the order of 10-15 mmcf/d.

"Because these are tight reservoirs, we'll get really strong initial flow for a while because there is good pressure, so we'll get lots of good cashflow early on, and then they will drop off and flow at a much lower rate for many years, even decades.

"That's why we need a continuous supply of drilling prospects."

Sandy, a geologist, said Burleson would not need to acquire additional projects for the foreseeable future.

"It's important to note that there is possibility to have cashflow in a matter of months ... which reflects the nature of being in an area with existing pipelines and infrastructure.

"We'll have regular news flow, which will keep interest in the stock – this will set us apart from the other explorers that drill one or two wells then go off the radar screen."



▲ Mike Sandy

Plans

Sandy, who recently returned from a trip to the US, lived there for about a year as president of Novus USA. In 1994, he helped establish Novus Petroleum, then defended it 10 years later during a long running and ultimately successful takeover play by Indonesia's Medco Energi Internasional. He is also a non executive director of Tap Oil and Caspian Oil & Gas.

"So I'm a consultant with a few board roles and decided, with Tony Barton's (Australian Heritage Group) encouragement, to set up a company with US assets and it was logical to turn to Andy Kugler, who I had known for 20 years."